

Australia	Sch22	Indonesia	Rp300	Portugal	Ecu100
Belgium	Dfl250	Israel	₪3.50	S.Africa	Rand100
Canada	C\$1.00	Italy	Lira1,000	Spain	Ptas125
Cyprus	C\$0.75	Japan	¥100	Sri Lanka	Rupee30
Denmark	Dkr100	Malaysia	RM1.00	Sweden	Kr100
Egypt	E£2.25	Netherlands	ƒ1.25	Switzerland	Sfr100
Finland	Fmk7.00	Poland	zloty100	Taiwan	Nt\$100
France	FFr5.50	Romania	Lei100	Thailand	Baht50
Germany	DM2.00	Singapore	S\$1.00	Turkey	Lira100
Greece	Dr100	South Korea	₩100	USA	\$1.00
Hong Kong	HK\$1.00	Sweden	Kr100		
India	₹1.00	Switzerland	Sfr100		

World News

Business Summary

Roh's win
rejected by
opposition
candidates

The victory of Roh Tae Woo in South Korea's first presidential election for 16 years was yesterday rejected by the two main opposition candidates as fraudulent.

Kim Dae Jung and Kim Young Sam claimed there had been widespread ballot rigging and voter manipulation. Both scored fewer votes than expected. Page 18

Sweden-EC barriers

Sweden said it would seek to abolish all economic barriers between it and the European Community.

US inspection

US experts left for the Soviet Union yesterday to inspect what the Reagan Administration said are two radars set up in violation of the 1972 Anti-Ballistic Missile Treaty.

Mozambique amnesty

Mozambique's President Joaquim Chissano offered an amnesty for rebels fighting in the 11-year old civil war if they lay down their arms.

Soares partnership call

Portuguese President Mario Soares is due to tell the Spanish parliament today that it was time for both countries to deal with each other as equals.

Mubarak-Reagan talks

Egypt's President Hosni Mubarak will have talks with President Ronald Reagan in Washington late next month, Egyptian government sources said.

Chairman accused

Daniel Dewar, chairman of the French armaments and motor parts company, Luchaire, was charged with fraud, corruption and illegal arms sales following the alleged export by his company of artillery shells to Iran. Page 2

Spain to urge merger

Spain's industry ministry will urge support for mergers to improve competitiveness in the EC said a policy paper. Page 2

Contra aid rejected

The US House of Representatives rejected a Senate plan to provide some \$16m in lethal and non-lethal aid to the Nicaraguan Contras. It named a task force to present a counter-offer.

Young leaders elected

Peking's Communist Party congress elected a smaller, younger and better-educated party committee. The average age of new members is 55, six years younger than their predecessors said the official Xinhua news agency.

Hart splits support

US presidential contender Gary Hart the most popular Democrat in the field with 28 per cent support among other Democrats, said a public opinion poll. However, 36 per cent rated him unfavorably.

Airport deal snubbed

Gibraltar effectively rejected the Anglo-Spanish accord on the Rock's airport reached earlier this month. Page 2

NZ tax reforms

New Zealand is to reform taxation and privatisation state-owned assets. Proposals include single rate personal tax. Page 4

Earthquake hits Japan

An earthquake hit a wide area of Japan, killing at least two people and injuring 53 others, police said.

US 'jamming radar'

Tehran Radio accused the US of jamming Iranian radar to protect Iraqi aircraft attacking ships off Iran's Gulf coast.

Karpov victory

Anatoly Karpov scored a dramatic 57th move win in the 23rd and penultimate game of his title chess challenge in Seville, to take the lead over champion Garry Kasparov.

Brazil seeks
\$11.5bn to
cover debt
repayments

Brazil is seeking \$11.5bn in new loans from its commercial bank creditors for the three years 1987 to 1989 in order to refinance debt interest payments falling due over the period.

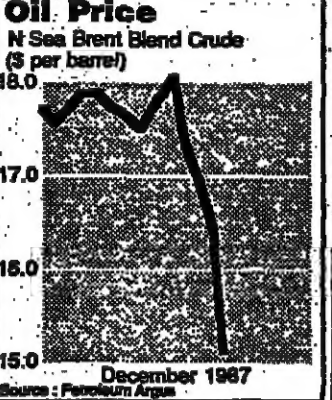
The new loans would cover 60 per cent of the debt burden and would make up the shortfall in the country's balance of payments, according to Mr Carlos Eduardo de Freitas, the external director of the Central Bank. Page 18

COUNTY NATWEST

investment banking arm of National Westminster, large UK clearing bank, lost \$60m (\$120m) in October's market crash. Page 19

OIL prices

Oil prices continued to fall in frenzied trading in the wake of the Opec conference, with North



Sea Brent Blend crude losing \$1 a barrel to \$15.15. Commodities, page 28

WALL STREET: The Dow Jones industrial average closed down 50.07 at 1,934.40. Page 40

LONDON: The FT-SE 100 index ended the day 16.4 higher at 1,706.2 - its best close since November 2 and a fifth successive advance. Page 48

TOKYO: The Nikkei average gained 80.41 to 22,890.83. Despite the last-minute buying spree, trading remained lacklustre with turnover at only 622.33m shares, compared with Wednesday's 685.39m. Page 49

DOLLAR closed in New York at DM1.75, FFfr.475, Sfr1.515 and Y128.35. It closed in London at DM1.6220 (DM1.6305), FFfr.5.49 (FFfr.5.5275), Sfr1.3170 (Sfr1.3285) and Y128.20 (Y127.30). Page 29

STERLING closed in New York at \$1.8400. It closed in London at \$1.8355 (\$1.8320), DM2.9775 (DM2.9875), FFfr10.0775 (FFfr10.1275) and Y231.60 (Y230.50). Page 29

PORSCHE, West German luxury car company said sales in the US plummeted by 17 per cent in the first 11 months of 1987 to 22,350 cars. Page 21

HUSKY OIL, Alberta-based petroleum group, is negotiating to buy the Canadian subsidiary of Texaco, crippled US oil giant which may need to sell assets to finance a settlement of its dispute with Pennzoil. Page 19

KANSALLIS-OSAKE-Pankki, Finland's leading bank, and Pohjola, country's largest insurance company, are to acquire a 16.8 per cent stake in Skandia, Sweden's biggest insurance group, for \$51.6bn (\$269m). Page 19

MARSH & MCLENNAN, Canadian world's biggest insurance broker, is to reshuffle its broking operations worldwide. Page 19

APPLE COMPUTER, US personal computer manufacturer, forecast record sales and earnings during the current quarter, dispelling concerns that curbs on spending following the stock market crash might hit the personal computer market. Page 19

TEXAS INSTRUMENTS, US electronics and semiconductor manufacturer, has signed a letter of intent to sell 60 per cent of its geophysical oil services business to Halliburton, a leading Texas oil services company. Page 19

VOLKSWAGEN, West German motor group, said profits for 1987 will be much the same as the pre-tax DM2.1bn (\$1.3m) for 1986. Page 21

Union Carbide rejects Indian legal ruling on Bhopal

BY RODERICK ORAM IN NEW YORK

AN INDIAN judge yesterday ordered Union Carbide, the US chemicals group, to pay \$2.5bn (\$270m) in interim relief for victims of the 1984 Bhopal poison gas disaster. The move appeared to be aimed at hastening a negotiated settlement.

Union Carbide strongly rejected the order for part-payment of \$3bn compensation sought by the Indian Government for the deaths of more than 2,300 people and serious injury to 20,000 caused by a leak of gas from a plant owned by the company's Indian subsidiary.

The court order amounts to awarding damages without a

trial, which runs counter to legal principles in India and other countries," said Mr Robert Berzok, director of corporate communications at Union Carbide's Connecticut headquarters.

"Although we are deeply concerned for the victims, interim compensation has never been allowed where the evidence with respect to liability is in dispute," he added.

Union Carbide has long contended that the disaster was caused by employee sabotage rather than negligence by its 50.9 per cent-owned Indian subsidiary.

Mr Berzok said: "We wish to

bring legal proceedings to a conclusion and to see that prompt aid comes to the victims. Both results will be achieved by a settlement between Union Carbide and the Government of India."

Neither result would be achieved by an order for interim compensation which is likely only to prolong litigation.

The two sides came close to a settlement in mid-November but, after they failed to meet a court-imposed deadline, Judge Mahadeo Waman Deo of the Bhopal district court began to hear petitions for interim compensation which led to yesterday's ruling.

It appeared Union Carbide was willing to pay between \$500m and \$650m to settle the litigation, with at least \$350m going to the victims and a minimum of \$150m to the Indian Government to reimburse medical and other costs.

US security analysts believe Union Carbide could handle such a settlement without jeopardising its finances. They calculate that much of the money would come from about \$200m of insurance cover for the disaster and \$85m to \$100m raised from a charge against fourth-quarter 1986 earnings. Its share price slipped 5½ to \$22 yesterday in

New York.

The Indian Government stepped up pressure on Union Carbide earlier this month by filing homicide charges against Mr Warren Anderson, who retired as chairman in November, 1986, and other former company officials.

Despite missing the November deadline for a settlement, Union Carbide is still negotiating with the Indian Government, US executives said yesterday. The company has yet to see the text of Judge Deo's ruling so its next legal move will depend on what it finds in it.

Husak resigns Czech
party leadership and
nominates successor

BY LESLIE COLLITT IN BERLIN

MR GUSTAV HUSAK, who became leader of Czechoslovakia after the Soviet invasion of 1968, resigned yesterday as the party's Secretary General and was succeeded by Mr Milos Jakes.

Mr Husak, 74, is believed personally to have nominated the 65-year-old Mr Jakes, thereby ensuring that the party leadership remains in conservative hands.

The Czechoslovak news agency CTK said Mr Husak, who took over from the reform-minded Mr Alexander Dubcek, asked to be relieved of his post for undisclosed "serious reasons".

Mr Husak is to remain President of Czechoslovakia, a largely ceremonial post, and a member of the ruling Presidium.

Mr Jakes, who was responsible for economic affairs as a Central Committee Secretary, takes full control of the party with the economy in deep trouble, but there is no talk of perestroika, or Soviet-style economic restructuring.

Mr Jakes built his reputation as a party organizer in the 1970s at the height of the Brezhnev era when economic and political reform were not encouraged.



Husak: ceremonial post

Mr Husak, a lawyer by profession and a Slovak, was a moderate figure to most Czechoslovaks. His background as a victim of Stalinism did not prevent him from purging the party in the early 1970s of 70,000 members who were followers of Mr Dubcek. However, it explained why he did not stage the trials of his opponents after the Soviet-led occupation.

Pragmatic Jakes takes charge

BY JUDY DEMPSEY IN VIENNA

AFTER MONTHS of speculation and whisper, the rumours have finally come true. Mr Gustav Husak has at last resigned and Mr Milos Jakes now holds the reins of power in the Communist Party of Czechoslovakia.

His promotion, however, represents no clear victory for the cautious reformers for change over the past 19

years. Mr Jakes does not represent change. Instead, he combines pragmatism with opportunism.

For those who hoped for real change, Mr Jakes may be something of a disappointment. He fully identified with the leadership which crushed the "Prague Spring", the reform movement spearheaded by Mr Alexander Dubcek, who was ousted after the Soviet-led occupation.

socialism a human face.

Mr Jakes is a Czech (Mr Husak is a Slovak) who was born in August 1918. He made his way steadily up through the ranks of the Communist Party. In the early 1960s he worked on local government and local youth committees. By 1965, he was on the central committee of the youth movement and was later moved

Dee Corporation faces £2bn
bid from £130m confectioner

BY NIKKI TAIT IN LONDON

THE RECENT upswing in bid activity in Britain took a dramatic turn yesterday when Barker & Dobson, a £131m (£290m) confectionery company, launched a £2bn cash and shares offer for Dee Corporation, the country's third-largest listed food retailer.

To fund the cash element of the bid and provide working capital, Barker is raising £1.6bn of loan finance from a seven-strong syndicate of banks. It is the first major leveraged deal of this type since Elders Ltd, the Australian group, bid for Allied Lyons two years ago. It is also the first take-over involving two UK companies to top the £1bn mark since Pilkington escaped the clutches of BTR last February.

News of the Barker bid came as Dee Corporation's chairman and chief executive, Mr Alec Monk, was in the US. Before his return - he was due to fly in yesterday evening - the company put out a holding statement, noting the bid announcement and advising shareholders to take no action. Despite the fact that bid rumours have surrounded Dee recently, it was unclear who the company's advisers would be.

Barker & Dobson has seen a rapid revival in its fortunes since

Mr John Fletcher, the former managing director of the Asda supermarket chain, moved in as chairman and chief executive of the ailing confectionary group two years ago. A number of disposals and subsequent acquisitions - including the Budget chain for \$30m from Booker McConnell - followed, and the company has switched from a £2.8m pre-tax loss in 1984, to forecast profits of £18m in 1987.

Dee Corporation, by contrast, is still digesting the results of a rapid acquisition programme, and recently reported an 18 per cent fall in pre-tax profits to \$53.6m in the 28 weeks to early-November. The company takes in over 800 supermarkets.

If the bid is successful, Mr Fletcher plans to dispose of Dee's 76 UK supermarkets, plus its non-Gateway interests. Yesterday, analysts were estimating that the disposals could raise slightly in excess of £1bn, with the UK supermarkets contributing over half that sum.

A key 15.2 per cent stake in Dee is held by Associated British Foods, following the sale of its

Fine Fare stores to the food

retailer in June 1986.

The terms of the offer are 11 new Barker & Dobson shares and 2807 in cash for every 20 Dee With B & D down 12p to 183p yesterday, that values each Dee at 224.5p and the entire company at just under £2bn. Yesterday, Dee shares added 54p to 220p.

To finance the £1.25bn cash element, and to provide further working capital B&D's advisers, Kleinwort Benson, have arranged a seven-strong bank syndicate to provide £1.6bn of bank facilities. Citibank is putting up \$650m; Chemical Bank, \$300m; International Bank of Japan, \$200m; Standard Chartered and Credit Agricole, \$100m each.

The two UK banks are Kleinwort (£100m) and B & D's own bankers, Bank of Scotland (£150m). The loan is for three years and carries a rate of 14 per cent over London inter-bank offered rate. The share element requires the issue of 488m new B&D shares, five and a half times the number currently in issue.

A bid financed by banks, Page 16; Lex, Page 18

Bush 'supported
Iran arms for
hostages deal'

BY LIONEL BARBER IN WASHINGTON

US Vice-President George Bush supported the sale of arms to Iran in exchange for the release of American hostages in Lebanon, according to a White House memorandum released yesterday by the joint congressional committee investigating the Iran-Contra affair.

The committee said the newly discovered memorandum represented the first, albeit hearsay, evidence that Mr Bush backed the Iran initiative - the worst foreign policy disaster of the Reagan presidency.

Mr Bush, the front-runner for the 1988 Republican presidential nomination, has repeatedly refused to disclose his position in the internal administration debate on the arms deals, arguing that his advice to President Reagan should remain private. His office declined comment yesterday.

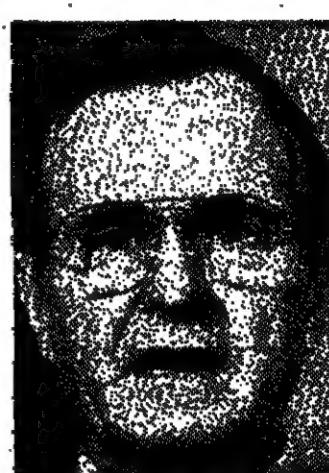
The Iran-Contra committee wound up its investigation last month, publishing a 690-page report on the affair which was sharply critical of President Reagan and his top aides who had run a "campaign of dishonesty and deception".

Using a new computer programme, committee aides turned up a February 1, 1986 memo written by Rear Admiral John Poindexter, President Reagan's former national security adviser on the Iran arms initiative.

The memo said: "Most importantly, President and VP (Vice President) are solid in taking the position that we have to try."

The memorandum is damaging to Mr Bush because it ties him to what many consider the essence of the scandal: the sale of arms to Iran, which was labelled a terrorist country by the US, in return for hostages.

Mr Bush himself chaired an intergovernmental task force on terrorism in 1986 which recom-



Bush's advice to Reagan should remain private

mended staunching the flow of arms to terrorist countries.

However, the memo does not tie Mr Bush to the other major element in the scandal, the diversion of profits from the arms sales to the Nicaraguan contra rebels during a Congressional ban on US aid. The diversion scheme - and the shredding of hundreds of documents by two senior White House officials, Admiral Poindexter and Lt Col Oliver North - is the subject of a criminal inquiry.

Until yesterday, the last word on Mr Bush's position in the affair appeared in the congressional report which said: "The Vice-President attended several meetings on the initiative, but none of the participants could recall his views."

But the Vice-President's Republican challenger has taunted Mr Bush, saying in a recent TV debate: "Were you in the cockpit, or were you on an economy ride in the back of the plane?"

Sensitive
technology
'lost' in
deal with
Moscow

By Lionel Barber in Washington

THE SOVIET UNION acquired at no cost from a US-owned company in Britain a nearly complete plant to make a high-technology material which significantly improves the accuracy of nuclear warheads, according to a US congressional committee.

The findings of a sub-committee of the House Energy and Commerce panel has sparked a bitter inter-governmental row in Washington.

The committee's claim that the case amounts to one of the worst ever losses of Western technology know-how to the Soviet Union is bitterly disputed both by the British Government and by the US officials involved.

But its findings are already being used as a weapon in the long-running battle over the Reagan administration's use of export controls in East-West trade.

At stake is the reputation of the Pentagon's Trade and Security Policy group, the powerful watchdog agency set up in 1985 to beef up national and international controls on the transfer of sensitive technology to the Soviet bloc.

The story of how the Soviet Union purchased specialised equipment for hardening nuclear warheads was first disclosed in a series of articles last month in *Newday*, a Long Island newspaper.

It was followed up by the House Energy and Commerce Committee and culminated in a closed-door session last week which just happened to coincide with the Washington superpower summit.

According to the sub-committee's findings, between 1982 and 1985 Consors Engineering, a US-owned British company based in Scotland, sold the Soviet Union a classified process to manufacture a durable and heat-resistant material called carbon-carbon. This material is a woven fabric lighter than steel, but is able to withstand extremely high temperatures, experienced, for example, when an intercontinental ballistic missile re-enters the earth's atmosphere. It is ideal substance, therefore, in the production of nuclear warheads, ensuring that they do not "wobble" as they home in from outer space on their targets.

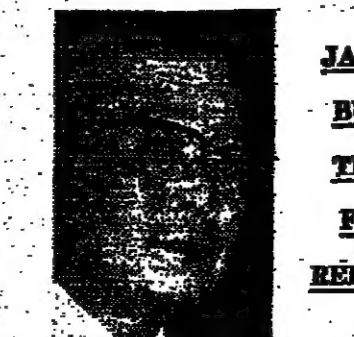
The US has been able to make carbon-carbon since the 1950s but its qualities only became widely known through published articles in scientific journals in the late 1970s.

According to a Pentagon official, it was around this

Continued on Page 18

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Noboru Takeshita, Japan's Prime Minister, "backroom politician with a flair for consensus politics," Page 4

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EUROPEAN NEWS

Paris opens car phone market to competition

BY PAUL BETTS IN PARIS

FRANCE'S conservative government has taken another step in deregulating French telecommunications by opening the market in radio and car telephones to competition.

The move follows the introduction of competition in the market for so-called value added telecommunications services earlier this year.

Mr Gerard Longuet, the telecommunications minister, has now chosen a second group of industrial partners to compete in the French radio telephone market against the Direction Generale des Telecommunications (DGT), the French telecommunications authority. DGT is associated with the Matra defence and electronics group in the mobile telephone business.

Its new rival is a consortium led by the Compagnie Generale des Eaux, the large French private water distribution group, and includes Alcatel, the French controlled international telecommunications concern, and Nokia, the Finnish industrial group.

The consortium was selected in preference to two others, one linking the Bouygues construction company with Ericsson of Sweden and the other associating the Lyonnaise des Eaux pri-

vate water company with Motorola of the US. Generale des Eaux will also lead the new company which will operate mobile telephone services based on the Nokia-Alcatel equipment. Other partners are expected to join the operating company, including possibly one of the independent US Bell telephone companies. Bell South is reported to be likely to join the French consortium.

The French government hopes the move will speed up the development of radio telephones. France has fallen behind in this sector, with only 30,000 radio telephone subscribers against about 200,000 in the UK and 300,000 in Scandinavia.

However, the French authorities expect the number of subscribers to increase to 300,000 by 1992 with 200,000 subscribers supplied by the Matra-DGT Radio-2000 system and another 100,000 supplied by Generale des Eaux-Alcatel-Nokia.

The government's decision to choose a second supplier of radio telephone services is a significant step towards the gradual deregulation of French telecommunications. But the conservative administration has decided to shelve its broader telecommunications deregulation bill.

Luchaire chief charged over Iran arms sales

BY GEORGE GRAHAM IN PARIS

MR DANIEL Dewavrin, chairman of the French armaments and motor parts company Luchaire, was yesterday charged with fraud, corruption and illegal arms sales following the alleged export by his company of artillery shells to Iran.

The charges are the first in the Luchaire case, which opened in March 1986 after the Ministry of Defence had lodged an official complaint, and which has implicated close advisers of the former Socialist defence minister, Mr Charles Hernu.

The affair was stirred last month with the leaking of an internal Defence Ministry report which included allegations by

one witness that commissions on the Iranian arms sales had helped to fund the Socialist party, then in power.

Although the arms sales took place before the right-wing government came to power in March 1986, the affair, along with similar charges of illegal exports to Iran by the state-owned explosives company SNPE, has embarrassed the administration.

Mr Jean-Bernard Raimond, foreign minister, acknowledged earlier this week that the Luchaire case had "damaged France's credit in the world". He said a number of Arab countries had expressed concern, fearing that France "was speaking with a forked tongue".

Turkish growth reaches 6.8%

By David Blanchard in Ankara

TURKEY'S economy grew 6.8 per cent this year, according to preliminary figures from the State Institute of Statistics yesterday. This is below the 8 per cent growth of 1986, but above the annual target of 5 per cent.

Manufacturing grew by 9.1 per cent this year compared with 10.6 per cent in 1986, while agriculture grew much more slowly, rising by 2.6 per cent against 7.3 per cent.

The growth figures will be greeted with only muted enthusiasm as Turkey is grappling with serious post-election economic difficulties, with the year-end inflation rate expected to be over 50 per cent.

The Central Bank yesterday moved to correct lax monetary policies of recent weeks by increasing from 12 per cent to 14 per cent the amount of their loan deposits from an EC accord to liberalise air transport should be challenged urgently, Mr Adolfo Canepa, the new Chief Minister, told the House that legal advice had already been sought in Brussels.

Gibraltar MPs block air deal

By Joe Garcia in Gibraltar

GIBRALTAR'S House of Assembly yesterday effectively rejected the Anglo-Spanish accord on the Rock's airport reached earlier this month. It decided unanimously that the legality of the Rock's exclusion from an EC accord to liberalise air transport should be challenged urgently, Mr Adolfo Canepa, the new Chief Minister, told the House that legal advice had already been sought in Brussels.

The opposition-sponsored motion reiterated that the international use of the airfield "should be on the basis that no special privileges are accorded to Spanish airlines, passengers with a Spanish destination or the Spanish aviation authorities".

Britain has agreed that Gibraltar should have the last word on acceptance.

Sweden to seek close links with Community

By Sara Webb in Stockholm

SWEDEN is to seek closer economic co-operation with the European Community in the run-up to the formation of the EC's internal market in 1992.

It wants to eliminate non-tariff barriers, to work on standardising goods, and to co-operate in research and development, the free movement of capital and labour, foreign aid, and the environment and transport.

The government said it might be prepared to contribute to the EC budget, but would not co-operate in areas affected by questions of security and foreign policy which would compromise Sweden's neutral status.

"All the doors are open, except the one leading to full membership," said Mr Goeran Berg, a senior foreign trade official.

The guidelines, presented in a bill to parliament, were greeted with disappointment by Swedish industrialists, who have pushed for full EC membership, but who have modified their stance in recent weeks realising that no political party is prepared to compromise on the neutrality question.

The EC is Sweden's most important trade partner, taking 50 per cent of its exports. West Germany, the UK, the US, and Norway each account for 11 per cent of Swedish exports.

The government said it wanted to work on co-operation with the EC so that Swedish companies would not face discrimination in the European market, but would be treated on an equal footing.

"The price of a balanced agreement with the EC is open to the Swedish market," said Mr Ulf Dinkelpliel from the Foreign Trade Department, who maintains that Sweden would be prepared to pay its due share. In the past, Sweden has contributed to research and development projects with the EC in which Sweden had an active interest.

The Swedish Industry Confederation said that the government's guidelines lacked ambition as they had expected more commitment on the right of establishment, the right of free movement of labour and capital.

The Confederation warned that Swedish companies would continue to face discrimination in questions such as work permits.

Commission threat over haulage row

BY WILLIAM DAWSON IN BRUSSELS

MR STANLEY Clinton Davis, European Commissioner for transport, has threatened to sue member states for failing to agree proposals for free competition in road haulage.

His threat came in an angry outburst at the end of a deadlocked meeting of EC transport ministers, at which West Germany, France and Italy blocked Commission plans to phase out long-standing bilateral arrangements setting quotas on the number of lorry journeys allowed across frontiers.

These contravene EC rules on the free movement of goods, according to a judgment two and a half years ago by the European Court of Justice.

"This is a deeply disappointing result," said Mr Clinton Davis, who added that he would consider asking for the European Court's help if there was no progress in the next six months.

Until recently, West Germany was isolated in fighting the

scheme, on the grounds that its own road freight industry would be put at a disadvantage. This is a consequence of the higher road taxes in West Germany, a point which the Commission tried to satisfy by promising to table plans to iron out the discrepancies in national road taxes.

However, Bonn appears to have put pressure on France and Italy, both of which were prepared to support the Commission's plans earlier this week. The result is that the plan is now being blocked by a minority of member states.

This drew angry reactions yesterday from Britain, which along with the Netherlands is keen to see the removal of lorry quotas, which control around half of EC freight transport. Ironically, the responsibility for trying to unblock the package will soon go to Bonn, when it takes over as President of the Council of Ministers for the first half of next year.

underlined how West Germans react with much greater sensitivity than other countries to possible threats to society.

In the wake of the October stock market collapse and fear of a worldwide economic recession, the worrying loss to the economy in the last days of Weimar, because it set off a chain of events leading to Hitler's coming to power, the 1929 crash arguably has a stronger place in the collective German psyche than in other European countries.

The memory of past excesses is one reason why all sides are anxious to keep passions from spilling over in the upsurge of workers' discontent over Ruhr steel closures announced suddenly at the beginning of this month.

In a display of trade union anger said to be unprecedented since the Federal Republic was founded in 1949, last week saw mass protests and traffic blockades throughout the coal and steel region.

Leslie Colitt assesses the change of leaders in Czechoslovakia
Czech reforms unlikely to speed up

Mr Gustav Husak, the Czechoslovak president replaced yesterday after 18 years as Communist Party leader, presided over an era when economic and political reforms were crushed. His successor, Mr Milos Jakes, while still a conservative, is expected to continue the country's limited reform programme.

The 69-year-old Mr Husak, who has for some time suffered ill health, rose to lead the Czechoslovak party after being sentenced to life imprisonment and jailed for 9 years in the Stalinist repression of the 1950s.

His resignation comes 20 years after the departure in disgrace of Mr Antonin Novotny as party first secretary. Then as now, both men were unable to cope with an ailing Czechoslovak economy. But here the parallels end.

In January 1968 the party chose Mr Alexander Dubcek as its reform-minded leader. The birth of "Socialism with a human face" under Mr Dubcek was as revolutionary for East European Communism as Mr Mikhail Gorbachev's glasnost for Soviet society. But Mr Dubcek's reforms came too early and were crushed by Soviet tanks in August 1968.

This time the party has chosen a man who embodies political continuity with the past. Mr Jakes, 65, is a conservative as are the rest of the eleven member ruling presidium of the Czechoslovak party. As head of the party's central committee and chief of planning from June 1969 until 1977 he personally supervised the purge of Dubcek supporters from the party.

As the party's leading official responsible for the economy throughout the 1980s, Mr Jakes presided over a steady decline in



Milos Jakes (left) who replaced Gustav Husak as Czech leader

economic performance. But there was little for which he could be personally blamed. The rigid centrally planned Czechoslovak economy was geared mainly to producing the range of goods required by other members of the Eastern bloc, particularly the Soviet Union. In the wake of Mr Gorbachev's political and economic reforms, Mr Husak and Mr Jakes last year presented their own programme for *perestroika* - the restructuring of the Czechoslovak economy.

Unlike the Soviet Union, political liberalisation in Czechoslovakia was to be kept to a minimum. Mr Husak, who was chosen by the Brezhnev to succeed Mr Dubcek in April 1969, knew where *glasnost* would inevitably lead in Czechoslovakia with its strong pre-war democratic traditions. Instead Czechoslovakia were offered *informovnost* - a somewhat more informative press and media.

Mr Jakes however managed to cause a stir yesterday when he noted after his nomination by Mr Husak that he would strive to strengthen the "rights and freedoms" of citizens. Czechoslovakians were curious to know what he meant.

"Time will show whether he is a reformer," said one Czechoslovak official yesterday.

There was nothing in Mr Jakes's speeches this past year to indicate he wants anything more than to streamline the faltering economy without unleashing lib-

eral gentes. Statistics released only a few days ago showed the economy had again "slowed down", with a shortfall of 1 per cent in the planned growth of 3.5 per cent this year. Even such figures though were meaningless as more than a quarter of output was unsaleable.

Under the Principles of Restructuring which Mr Jakes helped draft, central planners are to concentrate on strategic goals while central administration of the economy is to be "drastically reduced". Companies are to be placed on a "self-accounting" basis and weaned off subsidies. They are to plan their own development and have greater say in choosing their partners. Net output and profit are to be management's main objectives. Prices, interest rates, exchange rates and taxes are to become more realistic while wages are to be linked with performance. These measures are to be introduced gradually until 1991 when they are to form the basis of the next five year plan.

In the meantime though it is as difficult as ever to make contact with a factory manager in Czechoslovakia. The central ministries and foreign trade organisations still reign supreme.

Prague was rife with rumours yesterday about further changes at the top. Mr Lubomir Strougal, the Prime Minister, who advocated economic reforms in the 1970s, was said to be a candidate for "removal upstairs" to become a deputy Prime Minister.

The Czechoslovak chief of planning for the Czech lands, Foreign trade has continued to perform very poorly this year. Crucial hard currency earnings fell as a result of weak markets for Czechoslovakia's leading exports to the West - fuels, lumber and other raw materials.

international presence either through the establishment of marketing networks or through association with foreign companies.

After a boom in direct foreign investment in the first two years of membership - especially from the EC - the report looks towards a continuing inflow and out of harmony with its demand for a global platform from which Spanish and foreign companies can together compete internationally.

Although it says industry has reacted well in the past two years, it has made little progress in gaining EC markets.

In 1986 industrial output rose more than 8 per cent, the highest rate for a decade, and growth has accelerated so far this year.

Since last year, jobs are being created in the more liberalised investment and profits have recovered strongly.

Bonn faces DM4bn rise in EC payments

By David Marsh in Bonn

WEST GERMANY'S contribution to the European Community next year is likely to rise by DM4bn from the level officially set so far, adding further to the already rapidly-growing domestic budget deficit.

Officials say Bonn's EC contribution in 1988 is expected to total DM17.9bn compared with DM13.9bn set down in the federal budget plan for next year.

However, in view of the slowdown of the domestic economy, Chancellor Helmut Kohl has now firmly decided against increasing consumer taxes to offset the higher spending, they say.

In the past the possibility both of increasing value added tax and of raising levies on oil and tobacco had been held out in Bonn as means of topping up government revenues next year.

The extra EC spending comes partly as a result of new contribution rules which officials hope will be agreed at the planned emergency summit in February. The new system would bring VAT revenues into budgetary resources, as well as a further payment based on countries' gross national products.

The Brussels summit, which will take place under the presidency of West Germany, has been called to resolve the Community's budgetary and agricultural crisis after the failure of the Copenhagen summit this month.

The extra money will also need to be paid because of the effect of the decline of the dollar in pushing up agricultural spending, and to compensate for the regional aid package opened up by the rejection of a plan for an oil and gas tax. Bonn is by far the largest contributor to the Community but has made clear it is willing to put in further funds as part of an overall reform package which it hopes can be clinched by February.

Higher deficits temporary says Bundesbank

HIGHER public sector deficits to boost West Germany's economy should only be temporary measures and not undermine long term efforts to consolidate public spending, the Bundesbank said in its monthly report, Renter reports from Frankfurt.

"Accepting a worsening (of deficits) might be unavoidable in order not to reinforce the trend toward a weaker economy. This is acceptable only to the extent that medium term forecasts of financial policy are not given up," the Bundesbank said.

In an overview of public spending at the federal, state and municipal level, the Bundesbank detailed its forecasts for higher deficits next year.

Overall deficits should rise to about DM60bn, or three per cent of gross national product in 1988, from DM58bn to DM55bn in 1987.

Bonn's plan to implement DM14bn in tax cuts in 1988 to boost the economy will be a major factor.

The Bundesbank said: "Lower revenues, owing to economic factors, and necessary further spending, could lead to a higher deficit. Assuming Germany's gross national product grows a nominal 4 per cent in 1988, tax revenues for all authorities should rise by 2 1/2 per cent, it added.

Mr Agnelli, who has stepped down, Mr Agnelli has to step down. However, it is understood that Mr Agnelli may either create a second managing director's job for Mr Ghidella or allocate other responsibilities to Mr Romiti. Those who are speculating on Mr Romiti becoming president next year of Confindustria, the main organisation representing Italian companies, may see some reason for shortening the odds as a result of Mr Agnelli's decision.

Although Mr Romiti is given most credit for managing the recovery of Fiat from the brink of bankruptcy at the turn of this

decade, Mr Ghidella's has clearly been a rising star. A pronounced aficionado of the motor car, he has supervised the introduction of a new Fiat Uno and the Lancia Thema and on the past year has concentrated on turning around Alfa Romeo.

Umberto already has a number of senior responsibilities in the Fiat group, including the managing directorship of its one main financial holding company. He was group joint managing director for several years in the 1970s and eventually made way for Mr Romiti.

Investigation during the last few weeks has undermined Mr Barschel's attempts to defend himself from allegations of launching a Byzantine smear campaign.

Mr Barschel, the 71-year-old Bavarian conservative who is the only member of the Bundestag to have sat as a deputy continuously since 1949, says a gap has grown up between deputies and voters partly because of the complexity of the subject matter of politics.

Calling the acts of Mr Barschel "inexplicable and unforgivable," he says they have "damaged the standing of our democracy." And, recalling the crimes of Nazism, Mr Stuecklen adds when political morality declines, "We know where the journey can lead."

Spain to press for industrial mergers to boost competition

BY DAVID WHITE IN MADRID

SPAIN'S Industry Ministry will actively support mergers aimed at improving competition in the European Community, according to a policy paper given to the group's next meeting.

The call for greater concentration in industry comes amid controversy over what is being seen as government intervention in favour of mergers in the banking sector.

This move was sparked by the backing for Banco de Bilbao's recent unsuccessful bid for the larger Banco Espanol de Credito (Banesco).

The size of the average Spanish company, too small to take on the costs of technological development or to create proper export networks, is one of the main handicaps singled out in the policy paper.

Although Spain enjoys lower wage costs than the richest EC

countries, its manufacturers cannot rely on cheap labour to guarantee future competitiveness, it argues.

Wage costs are becoming a less important factor while Spain suffers from a lower technological level, a productive structure more concentrated in traditional sectors than its competitors and out of harmony with its demand for a global platform from which Spanish and foreign companies can together compete internationally.

Spanish companies' export efforts have been geared too much to sales through third parties and to price competition, without creating a permanent foothold in foreign markets.

Industrial policy in the context of the "horizon of 1992" - the completion of Spain's transitional period for dismantling industrial import tariffs and the move towards a barrier-free EC market - aims to bolster this

international presence either through the establishment of marketing networks or through association with foreign companies.

After a boom in direct foreign investment in the first two years of membership - especially from the EC - the report looks towards a continuing inflow and out of harmony with its demand for a global platform from which Spanish and foreign companies can together compete internationally.

Although it says industry has reacted well in the past two years, it has made little progress in gaining EC markets.

In 1986 industrial output rose more than 8 per cent, the highest rate for a decade, and growth has accelerated so far this year.

Since last year, jobs are being created in the more liberalised investment and profits have recovered strongly.

Agnelli names his brother as successor

BY JOHN WYLES IN ROME

MR GIANNI Agnelli has designated his brother, Umberto, as his successor as president of Fiat and Mr Vittorio Ghidella as the group's next managing director.

Mr Agnelli recently revealed his thinking on the future distribution of top jobs in Italy's largest company to a meeting of senior personnel at the company's next management training centre near Turin.

His decisions will not come as any great surprise to Italian industrialists since it has long been assumed that the most senior position would be filled

by an Agnelli. Since Gianni's son Edoardo is thought too inexperienced, Umberto, the 63-year-old younger brother, has long seemed the obvious choice.

However, the Avvocato, as he is known, left some room for speculation by declaring that members of the board of directors must retire at 75. This means that Edoardo will be in situ for another nine years and, in theory, that 66-year-old Mr Ghidella, who runs Fiat Auto, might have to wait another 11 years before Mr Cesare Romiti, the undisputed number two to

Mr Agnelli, has to step down. However, it is understood that Mr Agnelli may either create a second managing director's job for Mr Ghidella or allocate other responsibilities to Mr Romiti.

Those who are speculating on Mr Romiti becoming president next year of Confindustria, the main organisation representing Italian companies, may see some reason for shortening the odds as a result of Mr Agnelli's decision.

Although Mr Romiti is given most credit for managing the recovery of Fiat from the brink of bankruptcy at the turn of this

Serbia's culture minister sacked from Party

THE CULTURE Minister of Yugoslavia's biggest republic was sacked from the Communist Party yesterday, the latest target of a hardline faction which has achieved dominance in Belgrade.

The state news agency Tanjug said that Mr Branislav Milosevic, Culture Minister of the republic of Serbia, was expelled for defending an outspoken student newspaper which was accused in May of insulting late leader Mr Josip Broz Tito.

Mr Milosevic defended the paper in an article published in the weekly news magazine NIN, also in May.

Analysis in Belgrade said that Mr Milosevic's sacking was linked to the rise of hardline Serbian Communist Party chief Mr Slobodan Milosevic who emerged victorious from a power struggle with the more liberal Serbian State President Mr Ivan Stambolic.

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Fao warns on new Ethiopian famine

BY JOHN WYLES IN ROME

A WARNING of a serious new famine and loss of life in Ethiopia and a general food shortage in Africa's 45 developing countries was given yesterday by the UN's Food and Agriculture Organisation (Fao).

According to a special Fao report, this year's cereals production in the 45 countries will be 44.4m tonnes, 15 per cent below last year's level. This leaves them needing total food aid of 4.6m tonnes against donor pledges of 2.9m tonnes. So far they have received 900,000 tonnes.

Country representatives to Fao were told by senior officials yesterday that Ethiopia poses the most worrying problems in sub-Saharan Africa.

"In our view only sustained international action in the coming weeks can avert widespread famine, human misery and loss of life in the months ahead," Mr Declan Walton, Fao deputy director general, said.

The briefing was enlivened by sharp exchanges between the US representative, Mr Eckert and his Ethiopian counterpart. Mr Eckert said that one imped-

iment to aid to Ethiopia had been the "outrageous" unloading fees charged by the Government. Also, priority had been given during the last food crisis to unloading armaments rather than food aid.

He asked for commitments that there would be no such problems in the future.

After Mr Assefa Yilala, the Ethiopian representative, said that he was unaware of the problems raised by Mr Eckert, the US official asked that Fao raise the issue at the UN.

East and W Germany swap three spies

EAST and West Germany swapped three prisoners each at a border crossing point yesterday, according to ADN, the official East German news agency, Renter reports from East Berlin.

The agency gave few details, saying only that "three imprisoned people from each side" were exchanged at the crossing point at Wartha.

Government sources in Bonn said earlier this week that the two countries had exchanged a number of spies, relatively minor figures, in the latest of a series

exchanges. The sources had said three convicted East German spies would be traded for a "significantly higher number" of West German agents held in the East.

Mr Friedrich Oet, the West German government spokesman, yesterday said the exchange took place "in connection with the federal (West German) government's humanitarian efforts."

He declined to give any details, "in the interests of the people concerned." The West German newspaper Die Welt reported on Wednesday

that three agents from each side would be exchanged as part of a broader agreement worked out between Bonn and East Berlin lawyer Mr Wolfgang Vogel.

The last known spy exchange between the two countries was in August, when Mr Manfred Roisch, the Communist aero-space spy, was traded for imprisoned woman doctor Ms Christina Schumann, a friend of an East German rear-admiral executed for espionage in 1979.

East German Communist Party leaders have called for improvements in the supply and distribution of consumer goods, the party daily Neues Deutschland reported yesterday.

It reprinted a long Politburo report which listed a number of items in short supply in East German shops, including clothing, shoes and furniture, and called on all factories to boost production.

"The Politburo has ordered ministers to build on what has been achieved and further improve the range of consumer goods and to reach a production level that covers demand," it said.

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AMERICAN NEWS

Canada finance institutions face higher tax rates

BY DAVID OWEN IN TORONTO

CANADIAN financial institutions as well as smokers and others received an unpleasant surprise this week when Mr Michael Wilson, Finance Minister, unveiled the final draft of his tax reform package.

The overall thrust of the plan to redistribute the tax burden by asking most individuals to pay less and corporations to pay more remains essentially unchanged, however.

Financial institutions are to be taxed more than originally outlined in Mr Wilson's June white paper (discussion document) through the extension for two years of an existing capital tax which was temporarily imposed in an earlier budget.

Institutions which pay corporate income tax will, however, be able to deduct the capital tax from these payments. The measure thus amounts to a form of minimum tax for large banks and trust companies, insurance companies are not affected.

Mr Wilson also announced a 3 per cent rise, effective January 1, in the rate of federal sales tax on alcohol and tobacco. This will boost the rate levied on both to 18 per cent and should raise an additional \$3175m (\$228.5) per year.

The top federal tax rate for individuals, effective next year, will be reduced to 29 per cent.

This will mean, according to Mr Wilson, that "personal income tax will be reduced for 97m households - 85 per cent of the total."

While the basic corporate tax rate will fall to 28 per cent, this will be more than offset by the effect of broadening the corporate tax base and eliminating various tax-breaks and loopholes.

"The changes being proposed will reduce by one-half the number of profitable corporations that pay no tax," Mr Wilson projected.

Part of deficit cut passed by Senate

By Lionel Barber in Washington

THE US SENATE has passed the bulk of a two-year, \$76bn plan for reducing the budget deficit, as set out in the accord last month between Congressional leaders and the White House.

The Senate vote on Wednesday removes one more obstacle to the budget package, which will take final shape in joint talks between the Senate and House of Representatives before it goes to the president for signature.

The US Congress is racing to complete the mix of tax rises and spending cuts before the end of next week, when a measure to finance temporarily the government's operations expires. Financial markets have been unsettled by the lack of progress on cutting the budget deficit, which amounted to \$148bn in fiscal 1987.

The Senate measures would raise \$9bn in taxes and cut spending by about \$18.5bn in the current fiscal year. A move by disgruntled Republicans, who wanted deeper cuts in spending, was easily defeated by 71-25 votes.

Nancy Dunne in Washington profiles the longest-serving member of the US Cabinet

Reagan's 'Silent Sam' stands his ground

THE LAST remaining member of the original Reagan Cabinet is a quiet, little-known man whose tenure at the Department of Housing and Urban Development has been disturbed only by the sound of his budget axe.

No Cabinet secretary has taken more to heart the "Reagan Revolution" - the injunction to economise as many federal social welfare programmes as possible - as Mr Samuel Pierce. The department's once fleshy budget has been slashed from \$36.7bn (\$19.5bn) in financial year 1980 to \$14.2bn in the 1987 financial year, while the number of employees has shrunk from 15,600 to 12,000.

This achievement has not been without controversy in Washington, particularly as the public housing supply has begun to deteriorate and the estimated 2m to 3m homeless have become a fixture in the landscape of most US cities.

At 65, "Silent Sam" takes comfort from the message he perceives in the recent stock market collapse. "I said to myself: 'Thank God I did everything I could.' If we had all done as much, there wouldn't have been a budget deficit," he said in a recent interview. The Secretary's commitment to budget cuts is rooted in his memories of the bread lines in the Great Depression.

"Unless we get things straightened out, we're going to go back there again," he said. "When we hit that, we won't be able to help

anyone." Mr Pierce's critics portray him harshly as an unformed quill who has outlasted all others in the Reagan Cabinet because he is a convenient front man for an unpopular job.

He is, rather, a committed long-time Republican, who was allied to the party's liberal wing in his native New York. In a long career in law and government, he broke new ground as a black man.

His lengthy resume includes a law degree from New York's prestigious Cornell University, which he attended on a football scholarship. He was the first black to be a partner in a big New York law firm, the first to become director of a Fortune 500 company and a founder of Freedom National Bank, the first New York bank with predominantly black senior management. In the Nixon Administration, he served in the Treasury in the highest post ever held by a black.

Initially, he made a good impression on Capitol Hill. He told the then Republican Senate that although he would not neglect the poor and elderly, "reliance on government programmes, no matter how well intentioned, simply hasn't worked. It's time to try something new." His initiatives, however, have been obscured by the issue of homelessness and the growing scarcity of low-cost housing in many areas of the country.

Little attention has been paid to Mr Pierce's efforts to increase the capital available to finance mortgages by selling mortgage-backed securities in Europe, Japan and Singapore. He has received almost no credit for his insistence within the Administration on strengthening the Fair Housing Anti-discrimination Law.

He battled and won against Mr David Stockman, when the bud-

Welfare tough line

THE US HOUSE of Representatives has passed a controversial bill aimed to divert poor people from any dependency on government welfare programmes by establishing new work requirements for most parents who receive such aid, AP reports from Washington.

Mr Gary Bauer, one of President Ronald Reagan's domestic advisers, said he would recommend a veto if the welfare bill were to reach the president's desk in its current form.

This is considered unlikely, however, because 56 senators are sponsoring another version of the welfare measure. Action on the Senate's bill, a less generous plan, is expected early next year.

Asked by President Reagan in 1984 to revive and strengthen the US-USSR agreement on housing and construction, the Secretary made five unpublicised journeys to the Soviet Union to boost the US construction industry.

Last June he led more than 100 US firms participating in an international building exhibition, where he called for "a new spirit of co-operation and understanding" in working and trading between the superpowers. Mr Vincent Curcio, vice-President of the American Standard Corporation in South Carolina, whose company is one of 64 now dealing with Soviet construction officials, said the Secretary impressed the Soviets as "statesmanlike."

what was essentially a boost to service exports, was "odd."

get director wanted to slash government guarantees for low and mid-priced housing loans, and his Joint Venture for Affordable Housing, a scheme to deregulate the building industry and cut housing costs, has now spread to 50 states.

The Department has also introduced a number of small and unpublicised tenant management, job training, self-sufficiency and drug programmes in the public housing ghettos. But Congress has turned a deaf ear to the Secretary's pleas to set up "enterprise zones" to encourage businesses to move to depressed urban areas.

Meanwhile, at home, there are, says Mr Gordon Cavanaugh of the Council of Large Public Housing Authorities, an estimated 1m families on waiting lists for public housing and 12m more who need housing assistance. Only one-fifth of the households eligible to receive federal housing assistance are getting it.

The Senate recently derailed the first big housing bill in seven years, which would have provided \$15bn over two years for housing programmes for the poor, the elderly and the handicapped. Mr Pierce had recommended a presidential veto. "I want as many Americans as possible to realise the American dream," Mr Pierce said.

"But in days gone by this country has thrown a lot of money at problems and it hasn't solved them. People have to pay for things or they won't take care of them."

A \$1bn bill signed by the President in July was supposed to provide emergency housing assistance. The department was indicted in a recent congressional report for having delayed distribution of funds to the estimated 2m to 3m homeless.

Mr Pierce is philosophical about the criticism. "It's easy to give money away," he says. "When you're passing it out, everyone's your friend. He lets the criticism 'roll off me...if I feel I'm doing right, I don't give a damn what someone else says."

Samuel stops cuts effort

BY OUR BRAZIL CORRESPONDENT

PRESIDENT Jos e Sarney of Brazil again has severely curtailed the efforts of Mr Luiz Carlos Bresser Pereira, Finance Minister, to trim Brazil's public sector deficit.

He has vetoed an immediate closure of 15 small public enterprises and insisted that key elements in a new fiscal package be presented for approval to Congress, where they are liable to be watered down. In compensation, the president is said to have

promised to approve more substantial cuts in spending next year, but these will only take place after negotiations with the ministries involved.

The limitation of Mr Bresser's controversial proposals to no more than changes in taxation will provoke a new howl of anger from the business community.

Among other measures postponed by the president were plans to introduce a wealth tax and a capital gains tax.

Moscow sets terms for ending aid to Managua

BY OUR WASHINGTON STAFF

THE SOVIET UNION said yesterday that it would only halt military aid to the Nicaraguan government if the US agreed to refrain from sending weapons to the right-wing Nicaraguan Contra rebels.

Moscow's statement sought to clarify remarks by President Ronald Reagan, who said this week that Mr Mikhail Gorbachev, the Soviet leader, during the Washington summit this month, had made a unilateral offer to stop arms shipments to the Nicaraguan government. The Soviet offer was in support of the Central American peace plan, Mr Reagan said.

Mr Reagan's remarks have caused confusion in Washington, which has been grappling with claims made by a senior Nicaraguan official, who has defected to the US, that the Nicaraguan government has plans for a massive military build-up on the back of Soviet military aid. Gen Humberto Ortega, the

Nicaraguan Defence Minister, delivered a speech at the weekend confirming the bulk of the story. Managua's long-term plan to double its armed forces and reserves to 600,000 by 1995.

All this has helped shift several key votes in Congress, which now appears set to approve a further batch of non-lethal aid to the Contra rebels. Under discussion by House and Senate negotiators is about \$9m in such aid and at least another \$6m to cover transportation.

Some commentators have noted the apparent inconsistency in Mr Reagan's failing to use the defector's disclosures in his brief private talk with Mr Gorbachev. The answer is that they were for Congressional and US public consumption only.

The one loser this week is the House Speaker, Mr Jim Wright. Gen Ortega's speech has undermined Mr Wright's stand that Nicaragua is seriously committed to peace in the region.

Dole likely to announce support for INF treaty

BY STEWART FLEMING IN WASHINGTON

SENATOR Robert Dole, his campaign for the Republican Party's Presidential nomination buffeted by charges that he is being indecisive on arms control, yesterday was expected to announce his support for the Intermediate nuclear forces treaty.

To the chagrin of Mr George Bush, the Vice-President and Senator Dole's chief rival for the Republican nomination, the announcement is expected to take place at the White House where the Senator will be accompanied by the President himself.

The manoeuvring by the two Republican front-runners also underscores the highly-charged political atmosphere building up as the first major tests of their strength, the Iowa caucuses on February 8 and the New Hampshire primary on February 16, loom into view.

Vice-President Bush has been exploiting his loyal support for President Reagan's INF Treaty

and the high profile he adopted during the visit of Mr Mikhail Gorbachev, the Soviet leader.

The Vice-President then began a publicity campaign in Iowa designed to emphasise the image he is seeking to present as a "copilot" in the Reagan Administration, and Senator Dole's apparent indecisiveness.

Opinion polls showing some erosion in Senator Dole's support in Iowa, where he has been the front-runner, suggest this approach has paid off.

Mr Bush's advisers are seething at Mr Reagan's decision to give the Senator a White House platform.

For Mr Reagan, however, having Senator Dole line up behind the INF Treaty before Senate hearings begin next month, is a clear plus.

As Senate Republican minority leader, he will be an influential voice in the ratification process.

Mexican rates at record

BY DAVID GARDNER IN MEXICO CITY

MEXICAN INTEREST rates have reached all-time highs, despite the unenviable task of a plan to bring inflation under control.

The rate on the benchmark three-month Treasury bill (Cetes) now stands at 187 per cent, following a rise of nearly eight points this week, and is up 42 percentage points on the level at the beginning of October, just before the stock market crash.

If the overall rise in rates since October were to persist over a year, that would add to government borrowing about the 6,000 bn pesos (\$2.7bn) it is expected to cut from current and capital spending in 1988 as part of the plan this week. But the addition would be purely to the interest bill on the domestic debt.

The total interest bill on public sector debt for this year, forecast a month ago, was equal to 21 per cent of GDP, against a nominal budget deficit of 17.4 per cent of GDP.

Although the domestic public sector debt is about a third of the total \$103bn foreign debt, interest payable on it is now more than three times interest on the

foreign borrowings, or more than 15 per cent of GDP.

In the face of a swelling fiscal deficit, inflated by unruly domestic indebtedness, the Government had insisted during the last 18 months that it is "inertial" inflation which is causing the deficit and not vice versa.

Even the International Monetary Fund accepted this in its 1986 agreement with Mexico, which recognised the "operational deficit" - the deficit, or as Mexico claims, surplus, left after the portion of interest payments caused only by inflation is discounted - as the best measure of Mexico's budgetary adjustment.

Although the spending reduction in real terms since the 1982 financial collapse has been nearly 10 per cent of GDP - and real wages, as measured by the purchasing power of the benchmark minimum wage, have been halved by inflation - the Government has ignored its own arguments and chosen to emphasise further wage and budgetary restraint to cope with price rises now running officially at 144 per cent a year.

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OVERSEAS NEWS

SOUTH KOREAN ELECTION

Roh sweeps home, but search for genuine legitimacy goes on

BY MAGGIE FORD IN SEOUL

VOTERS in South Korea woke up yesterday to discover that efforts to elect an opposition candidate to the presidency had failed.

With 36.4 per cent of the total vote, Mr Roh Tae Woo, candidate of the ruling party and hand-picked successor to President Chun Doo Hwan, had come top of the poll.

By nightfall, some voters began to fear that something could be wrong with the result. The main victim, if their suspicions are true, seems to be Mr Kim Young Sam, who came second with 27.2 per cent.

Mr Kim Dae Jung, the second opposition candidate, also believes he has caused for complaint. Before polling day some analysts saw Kim Young Sam as a slight favourite to gain the most votes. In the event a margin of almost 2m votes separated him from Mr Roh.

Depression among Mr Kim Young Sam's supporters set in early on Wednesday night when first returns showed that he had scored only about 50 per cent of the vote in his home town of Pusan, South Korea's main industrial city, and in the neighbouring Kyongsang province. In the adjacent province, home area of Mr Roh, Mr Kim had been expected to do quite well, but managed only about 24 per cent.

The gloom was compounded when it became clear that Mr Kim was coming in third in Seoul, the capital, where about 26 per cent of the total voters live.

The Seoul result had been expected to be a close race between the two Kims. Observers were predicting a late surge for Mr Kim Dae Jung, and in the event he topped this poll with 32.4 per cent. Mr Roh came second with 29.5 per cent and Mr Kim Young Sam third with 28.4 per cent.

If the overall vote is confirmed as fair, then it points to an exceptional upsurge of regional feeling in favour of the government's candidate.

Mr Kim Young Sam gathered hardly any votes in the two Cholla provinces, stronghold of Mr Kim Dae Jung, which is not surprising. Cholla's native son recorded between 30 and 34 per cent of the votes in the region and was helped to the winning position in Seoul by a strong turnout of extremely enthusiastic immigrant supporters.

Nearly 1m Cholla-born people live in Pusan, about 25 per cent of the voters, but surprisingly, Mr Kim Dae Jung won only 9 per cent of the vote there, with 32 per cent going to Mr Roh. Mr Kim also yesterday questioned the figures in Incheon, an industrial city near Seoul and in Kyonggi province, surrounding Seoul, where many Cholla-born voters and poor workers live. Mr Kim came in third, with 21 per cent of the vote in both areas. The winner was Mr Roh with 38.7 per cent in Incheon and 41 per cent in Kyonggi.

While regional rivalry has been stirred by violent incidents during the campaign, observers cannot see why this should prompt a switch in support from Mr Kim Young Sam to Mr Roh. Both are from the same region. Although Mr Kim was the subject of scurrilous rumours in the final week of the campaign, they were thought likely to affect floating voters, not his strongest supporters. Voters in Pusan and surrounding areas have voted loyally for Mr Kim for years, and he should have gained around 70 per cent of the poll.

Analysts offered a number of reasons why voters may have switched to Mr Roh. Skilful use of television and the press by the Government side extracted full mileage from the disappearance of the Korean Air jetliner two weeks ago, allegedly bombed by North Korean terrorists. A woman suspect arrived in Seoul on the night of the election.

The appearance on television of Mr Paik Ki Whan, a minor presidential candidate who attracted great interest before he dropped out of the race, was followed by showings of a documentary film suggesting that Mr Paik's ideas were in line with those of Communist North Korea.

Analysts believe that some voters may have been frightened by this into voting for Mr Roh, who has in any case had the benefit of favourable television coverage throughout the campaign.

He has also had the Government machine of officials and employees to help him, especially local council chiefs. A number of instances of fraud have been detected at voting booths, involving missing or switched ballot boxes, but not enough to influence the vote as a whole, observers believe.

It is of course, possible that voters decided genuinely to opt for the stability and gradual change which Mr Roh has promised. His winning margin, if fair, leapfrogs the 500,000 military vote, widely thought to be biased towards him.

Many voters have given him credit for his declaration in favour of democracy after the June demonstrations. But doubts are beginning to grow. Many voters, especially those under 40 in Seoul, were last week planning to support one of the Kims, along with most of their friends and family. Only they can know if they had a last minute change of heart in the polling booth.

As Mr Kim Dae Jung said yesterday, it will be up to the voters to decide whether they think the vote was fair, and the candidates will respect their decision.

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Roh Tae-woo: tough times ahead

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Palestinian protests die down

By Andrew Whitely in Jerusalem

EXHAUSTION and a massive show of force by Israeli troops combined to dampen Palestinian protests in the occupied territories yesterday, as the Government of Mr Yitzhak Shamir began to grapple with the severe dent in the country's international image caused by its handling of the unrest.

Isolated disturbances broke out during the day in Gaza and the West Bank, as well as Arab East Jerusalem. But they lacked the passion and vehemence of preceding days, and few casualties were reported.

In Israel, criticism mounted at the government's lackadaisical response to the crisis - the worst since 1981 - and its apparent determination to treat the issue simply as a law-and-order question. Sharp editorials have questioned the way in which senior ministers, notably Mr Yitzhak Rabin, the Defence Minister responsible for the occupied territories, have stayed abroad.

Overlaid by the turmoil closer to home, Israeli troops in southern Lebanon have been in action for the third day against Moslem guerrillas. The army said six guerrillas were killed during a four-hour clash in the "security zone", which left no losses on the Israeli side, though several members of the Israeli-backed South Lebanon Army were reported either killed or injured.

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NZ tax changes to create jobs and stop dodges

BY DAI HAYWARD IN WELLINGTON

A WIDE-RANGING programme of tax and economic reforms, designed to encourage the unemployed and other welfare beneficiaries to seek work, was announced yesterday by the New Zealand Government.

The measures are also aimed at increasing productivity, attracting investment, creating more jobs, cracking down heavily on tax loopholes and tax avoidance, and reducing the government debt.

The main features of the package are the introduction of a single personal tax rate, a reduction in company tax, the reform of domestic tax laws for international company operations, an increase in the goods and services tax and cuts in tariffs.

The government also wants to sell NZ\$14bn (\$4.9bn) of government assets, remove tax concessions for superannuation and introduce a guaranteed family income.

Mr Roger Douglas, Finance Minister, claims the new measures will make New Zealand a world leader in taxation and benefit reform. It will be the first country in the world to introduce a single tax rate, to come into effect next October. "No other country has had the drive, the vision or the courage to introduce such a tax system," he said.

More than 250,000 New Zealand families on low or middle incomes currently pay effective marginal tax rates of 48 cents in the dollar.

The goods and services tax, New Zealand's value-added tax, will be increased from 10 per cent to 12.5 per cent in October to help finance the indirect tax

reforms now being introduced. The increase will provide extra \$900m GST revenue this year.

The government will sell \$1bn of state assets over the next five years to help reduce the \$42bn foreign debt by one third by 1992. At present one in every \$5 of government expenditure goes to service what Mr Douglas called "our huge legacy of inherited debt".

A substantial reduction in company tax is a cornerstone of the economic package. Big companies devote huge amounts of time and effort to avoid paying company tax at 48 cents in the dollar. Last year eight of the country's top 20 companies paid no tax, largely through the use of loopholes and by transferring operations through offshore subsidiaries. The loopholes will now be plugged.

Domestic companies will no longer be able to accumulate tax-free income in overseas trusts. Under the new regime New Zealand shareholders will pay tax on the undistributed income of the offshore trusts, nor will companies be allowed to issue the kind of bonus shares which have been used for tax avoidance. These are to be taxed in the same way as dividends. Companies will not be allowed to make non-taxable distributions from capital gains when a company is wound up. All distributions to shareholders will be regarded as dividends and taxed accordingly.

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Iraq claims Iran is still buying arms in London

BY ANDREW GOWERS, MIDDLE EAST EDITOR

IRAQ has told Britain that it believes the Iranian oil company office in London is still being used for the purposes of arms buying despite the closure of Iranian military procurement offices in the British capital more than two months ago.

Diplomats say Mr Mohammed Sadegh al-Mashat, the Iraqi ambassador, has complained to the Foreign Office that the National Iranian Oil Company with offices in London's Victoria Street, has brought in additional staff to handle weapons procurement in recent weeks. Foreign Office officials say they have frequently received Iraqi complaints about alleged Iranian arms buying activities, and that they constantly monitor NIOC's activities in London.

The allegation of continued Iranian arms buying from Britain is potentially embarrassing in the light of growing international pressure for a mandatory embargo on weapons sales to Tehran. It also coincides with

the disclosure that the British Ministry of Defence still has a sales office in Tehran. The Ministry confirmed yesterday that its International Military Services office in the Iranian capital was still open, but said it was carrying out purely administrative functions, especially pursuing debts incurred by Iran.

Britain ordered Iran to close its London arms buying office - an important link in Tehran's worldwide military procurement network, located in the NIOC offices - in late September, and all its staff have subsequently left the country.

The Iranians are subsequently believed to have set up a similar office in Frankfurt. But Iraq believes that additional staff have joined NIOC in London to carry out the same functions on a smaller scale. Beyond saying that the Government keeps a constant watch on NIOC activities, the Foreign Office could not confirm having received the latest protest.

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Congress likely to approve Stinger sale

By Andrew Gowers

The US Congress looks set this week to approve the sale of 70 sophisticated Stinger missiles to Bahrain in an important gesture of support for the Gulf emirate.

Congressional negotiators agreed on Wednesday night to a Senate provision, attached to a funding bill, which would allow the Reagan administration to sell Bahrain 70 of the shoulder-held missiles and 16 launchers.

Although the value of the deal - at \$7m - is relatively small, it is seen by the Administration as a vital boost for Bahrain's air defences, and a gesture of thanks for the Emirate's close co-operation with US naval operations in the Gulf.

Advocates of the deal argue that Bahrain has been a US ally for 40 years, and provides the headquarters for Washington's Middle East Force, a facility which has become especially valuable since the US began its military build-up in the region this year.

However, the proposed sale had also become the subject of a familiar political tussle, with some legislators arguing that the weapons could fall into the wrong hands and be used against the US or Israel. The argument was additionally complicated by embarrassing reports that Iran has obtained Stinger missiles from Afghan rebels.

Carla Rapoport assesses the first weeks of Japan's new Premier Takeshita buys time for reform



Noboru Takeshita: wily

JAPAN'S new Prime Minister, Mr Noboru Takeshita, made his international debut this week in Manila, playing Father Christmas with hefty bundles of aid and loans for Japan's Asian neighbours.

It was a flawless performance with little drama or excitement. As a result, few at home or abroad are any wiser as to what makes Mr Takeshita tick.

Unlike Mr Yasuhiro Nakasone, his showy predecessor, he remains unwilling to make a forceful show of leadership in the early days of his administration. An unknown quantity to most Japanese as well as to foreigners, Mr Takeshita rose to the top by building up a power base within the ruling Liberal Democratic Party, not by winning the affection of his fellow Japanese.

Even before the Asian meeting in Manila, it appeared that Mr Takeshita had already made an international fumble over something as lowly as tomato ketchup. Earlier this month Japan-watchers in the West were stunned when Mr Takeshita's young administration rejected a Gatt order to remove import barriers on 10 agricultural products.

The list of disputed items looked astonishingly trivial, ranging from tomato ketchup to processed cheese and pineapples. The rejection appeared to be damaging for the Prime Minister in terms of his crucial relations with Washington and his image abroad. But did Mr Takeshita really stumble?

There is another interpretation of events. Japan's little-known Prime Minister, a backroom politician with a flair for consensus politics, was not so much dismissing the Gatt ruling and Washington's wishes out of hand as using the rejection in Geneva to placate critics at home. If this is the case, it may bode well for Mr Takeshita's future.

Japan needs to liberalise its agricultural markets, particularly its beef, orange and, ultimately, its rice market. Mr Takeshita and Japan's leading bureaucrats know this. But they also understand the strength of Japan's agricultural lobby and its strong conservatism. Mr Takeshita's recent rejection of the Gatt order was not so much one of contrariness as a bid for more time.

The new premier, however, is making no such mistake. A few days ago, for example, Mr Takeshita's new programme for an indirect tax system secured the support of Japan's powerful Chain Store Association. "He may not be as showy, but he is not making

promises he can't keep. Like Nakasone. He's doing the behind-the-scenes work first," the managing director of one of Japan's largest investment trusts said this week.

This kind of spade-work will be essential to achieving any kind of substantial reform of Japan's agricultural sector.

But these views are still vigorously denounced by Japan's farmers. The Gatt case is a good example. The value of trade under consideration by the Gatt is minuscule in terms of Japan's trade with the rest of the world. In 1986, Japan's imports of these goods totalled about \$75m (\$41m).

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DID YOU CATCH THE EARLY TRAIN?

FINANCIAL TIMES, FRIDAY, AUGUST 29, 1986.

AT 6AM* A RAIL LINK WAS OPENED BETWEEN BRITAIN & HONG KONG. (ON SCHEDULE)

Today at 6am, Mass Transit Car No. D725 made its maiden run on the Kwan Tong line in Hong Kong.

An unremarkable event at first glance. After all, brand new rolling stock is regularly hitting the rails all over the world.

But D725 was a little different from other new railcars. Because D725 had already travelled 9,543 miles.

That's equivalent to the distance between Hong Kong and England.

It was, in fact, the distance between Hong Kong and England, because D725 was made in Birmingham, by Metro-Cammell.

The first in an order for 85 cars that we received on November 12th 1985.

That's just 9 months and 17 days ago, which (to the best of our knowledge) gives us the world record for speedily getting a railcar into revenue service.

But this order didn't suddenly fall out of the sky.

It followed the 777 Metro-Cammell railcars worth over £300 million that had already made the journey to Hong Kong, bringing earlier revenue to our customers and earlier comfort to their passengers.

We believe that our success is due to our business philosophy: we pay attention to detail, we ensure high quality products and engineering and we deliver on time.

We run a streamlined, competitive and professional operation. And we run it on schedule. Even if it means a trip of 9,543 miles.

METRO-CAMMELL

Performing and Exporting for Britain and the UK Railway Industry.

FINANCIAL TIMES, MONDAY, JULY 6, 1987.

THE 6.54 FROM SHA TIN DUE TO ARRIVE IN CANTON AT 10.55 IS REPORTED TO BE RUNNING 4 MONTHS EARLY.

Passengers who travel from the heart of Hong Kong to the Chinese border and beyond, can look forward to an extremely efficient and punctual service if the first arrival is anything to go by.

Rolling stock ordered by the Kowloon-Canton Railway Corporation scheduled for delivery in October has already arrived and is ready to roll.

But then this is the sort of service Railways round the world have come to expect from Metro-Cammell.

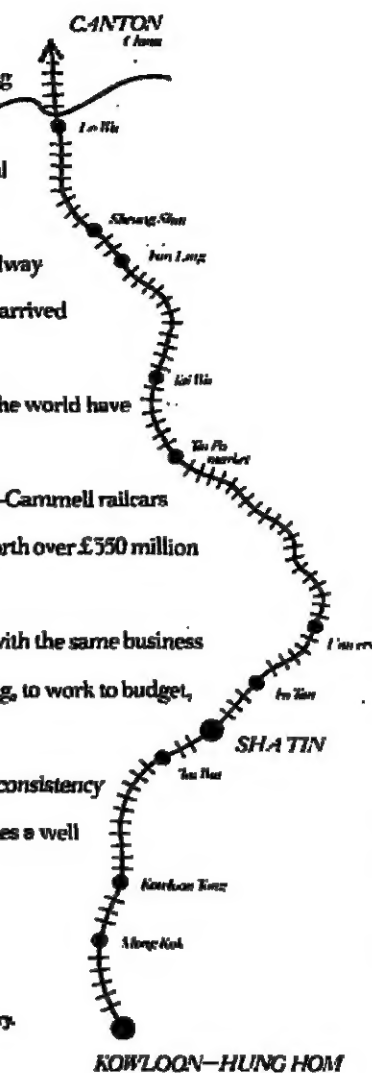
The 6.54 from Sha Tin is just one of the 808 Metro-Cammell railcars currently servicing Hong Kong transportation needs and worth over £330 million in exports to Britain.

Every customer and every contract is approached with the same business philosophy: to ensure high quality products and engineering, to work to budget, to give total customer support and to deliver on time.

In fact we believe our success is based on the same consistency of management, service, quality and performance that makes a well run Railway successful.

METRO-CAMMELL

Performing and Exporting for Britain and the UK Railway Industry.



FINANCIAL TIMES, MONDAY, OCTOBER 19, 1987.

METRO-CAMMELL ANNOUNCES THE ARRIVAL OF NEW JUBILEE LINE TRAINS. (THREE MONTHS EARLY.)

When the order for 16 new trains for London Underground was placed in October '86, the countdown to delivery was 15 months.

With three months still to go, delivery of the new trains has started.

Good news for London's record breaking underground. Good news for its passengers. Good news for Britain's railway industry.

CHARING CROSS 3 MONTHS EARLY

It's just another example of how Metro-Cammell is reacting quickly and efficiently to the needs of world passenger travel, and follows export orders for rail cars worth hundreds of millions of pounds all completed well ahead of time.

It also bears out Metro-Cammell's policy as main contractor to ensure the highest quality products and engineering, to work to budget, to give total customer support and to deliver consistently ahead of time.

METRO-CAMMELL

Quite simply the best there is in Trains.

FINANCIAL TIMES, FRIDAY, NOVEMBER 6, 1987.

WHAT GIVES METRO-CAMMELL'S SPRINTERS THE EDGE? A 3 MONTH EARLY START AND A 30 YEAR RUN.

Our Sprinter Diesel Multiple Units always get British Rail off to a flying start.

The first of the latest generation of Class 156 high quality cross country DMU Sprinters has been completed 5 months ahead of schedule.

In fact early completion is a crucial part of Metro-Cammell's main contractor policy.

Recent contracts for the Hong Kong Mass Transit, Kowloon-Canton Railway and for London Underground all ran early. We were months ahead of the timetable in all cases.

What's more, consistently beating the deadline in no way detracts from the high quality of our products and engineering or our ability to work to budget and our total customer support.

And what better proof than the fact that our Class 101 DMU's supplied way back in 1957 are probably the best that British Rail ever had and are still going strong.

To be a front runner in the international rail industry takes rather more than just being quick off the mark.



METRO-CAMMELL

We're in the long term consistency and service business.

Readers of the FT will have been quick to note whose trains have been arriving well ahead of schedule around the world. British Rail summed it up when, having placed an order for Rolling Stock on the East Coast Main Line, they commented "Metro-Cammell won on price, technical and quality considerations and delivery". With our main contractor policy performing so well, it will pay to keep an eye on our 1988 timetable.

METRO-CAMMELL

For Service, Engineering, Quality and Consistency in Trains.

UK NEWS

Jobless figures bolster optimism on economy

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT yesterday reported another sharp fall in the official unemployment total, providing further evidence of the buoyant pace of growth in the economy over the past few months.

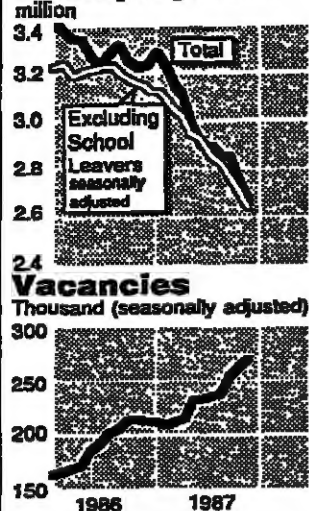
The Department of Employment said that the number of people receiving unemployment benefit fell by 63,500 to a seasonally-adjusted 2,649m in November, marking the 17th consecutive monthly decline.

Since June 1986, the total has fallen by 583,700 and is now at the lowest for five years. Mr Norman Fowler, the Employment Secretary, said that the figures reflected the strength of the economy and that prospects for employment were now better than for many years.

He warned, however, that a rise in the underlying rate of growth of average earnings to an annual 8 per cent in October from 7 1/2 per cent the previous month was an unhealthy sign. Higher pay settlements would threaten Britain's competitive position, which was crucial to further falls in the jobless rate next year, he said.

For the Labour Party, Mr Michael Meacher welcomed last month's fall but said that the downward trend largely reflected a Government campaign to discourage benefit claimants. Measured against the number of people looking for work, the proportion with jobs

UK Unemployment



had not improved at all in recent years, he said.

Whitehall officials said yesterday that the pace of decline in the unemployment total appeared to have accelerated over the past few months, and the underlying monthly fall was now put at around 60,000.

The Government acknowledges that part of the decline since mid-1986 reflects the expansion of special jobs schemes - particularly the Youth

Training Scheme (YTS) - and the tightening of benefit eligibility rules. There is also growing evidence, however, of a genuine improvement in the labour market.

With output rising rapidly and overtime working at its highest level since 1980, manufacturing industry has slowed the rate of job losses, while employment in service industries appears to be growing strongly. The number of vacancies has also risen by around a quarter during the past year, although it fell back slightly in November.

Ministers are reluctant, however, to predict a comparable pace of decline in 1988. Even if the impact of the stock markets' crash on the economy is relatively small, the Treasury is forecasting a significant reduction in the pace of economic growth from the present rate of 4 per cent or above to 2.5 per cent next year.

The recent upward pressure on wages, particularly in the south-east of England, where unemployment is down to 6.6 per cent, is also causing concern about the prospect of inflation. The underlying rate of growth in earnings in manufacturing has risen from 7 1/2 per cent at the start of this year to 8 1/2 per cent.

The impact on costs is at present being offset by productivity growth running at around 7 per cent a year, but there is little expectation that such gains can be sustained indefinitely.

Hanson salary quadruples to £1.263m

By David Waller

LORD HANSON, chairman and founder of the Hanson group of industrial companies, is one of the UK's highest paid directors.

The company's 1986-87 annual report disclosed yesterday that his salary for 1987 had nearly quadrupled to £1.263m. Last year he was paid just £327,000.

The increase was part of a review of directors' salaries which has doubled boardroom pay from £3m to £6m. A statement said the review had shown previous salaries inadequate by international standards. Mr Martin Taylor, a Hanson director who expressed regret that his own salary had not in fact doubled - explained that more than half the company's 120,000 employees now worked in the US, where pay was a lot higher than in the UK. "We must pay our top people global rates," he said.

The other consideration was that the pay increase should reflect the rate of growth in Hanson's earnings per share. An element of the pay increase was tied to the 31 per cent jump in earnings in the year to September 30, when pre-tax profits amounted to £74m.

"In the case of our chairman, it was important to continue to motivate him as he approached normal retirement age in January this year," said Mr Taylor. Lord Hanson, 64 next month, is thought to have indicated in negotiations earlier this year that he would like to stay on for another five years.

He was awarded a salary of £968,000 and a performance-related bonus of £295,000. His dividend income on his 5.6m shares - about £375,000 a year - and a series of options agreements struck over the last four years are entirely separate.

He has now joined a select group of UK businessmen who earn more than £1m a year - but his basic remuneration is still less than that of Mr Christopher Heath, managing director of Baring Securities, whose pay and benefits package topped £2.5m in 1986-87.

INCOME TRENDS REVERSE POST-WAR PATTERN

Rich are getting richer under Thatcher

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE POST-WAR trend towards greater equality of incomes has been reversed under the Government of Mrs Margaret Thatcher, according to an official study published yesterday.

In its three-yearly distribution of incomes survey, the Central Statistical Office said that the rich have gained a progressively larger share of national income since 1979. The poorest have seen their share fall fractionally.

The survey shows that the proportion of pre-tax income earned by the wealthiest 1 per cent, which had previously fallen consistently since 1948, rose from 5.3 per cent in the 1978/79 financial year to 6.4 per cent in 1984/85.

Tax payments reduced that share but the trend was the same, with the proportion of overall income claimed by the richest rising from 3.8 per cent to 4.9 per cent after tax.

The shift towards greater inequality was also apparent in the gains made by those in the top 10 per cent on the income scale, whose share of pre-tax incomes rose from 26.1 per cent to 29.5 per cent over the same period.

Quantile Group	INCOME DISTRIBUTION (percentages)		
	Figures in Brackets represent share after tax.		
	1978/79	1981/82	1984/85
Top 1%	5.3 (3.9)	6.0 (4.6)	6.4 (4.9)
2-5%	10.7 (9.8)	11.6 (10.7)	12.1 (11.1)
6-10%	10.1 (9.7)	10.7 (10.3)	10.9 (10.5)
Top 10%	26.1 (23.4)	28.3 (26.6)	29.5 (26.5)
11-20%	16.5 (15.3)	16.7 (16.4)	16.8 (16.6)
21-30%	13.5 (13.5)	13.2 (13.2)	13.0 (13.0)
31-40%	11.2 (11.3)	10.7 (10.8)	10.3 (10.4)
41-50%	9.2 (9.3)	8.6 (8.8)	8.2 (8.6)
51-60%	7.3 (7.7)	7.0 (7.3)	6.6 (7.1)
61-70%	5.8 (6.4)	5.6 (6.3)	5.4 (6.0)
71-80%	4.5 (5.1)	4.4 (5.2)	4.4 (4.9)
81-90%	3.5 (4.1)	3.5 (4.0)	3.5 (4.2)
91-100%	2.4 (2.9)	2.0 (2.4)	2.3 (2.7)

Source: Central Statistical Office.

By contrast, the share of the bottom 10 per cent fell from 2.4 per cent in 1978/79 to 2.3 per cent in 1984/85, although it did rise from the low-point of 2 per cent seen in 1981/82. The share of other groups in the lower half of income scale was roughly constant.

The survey shows that all income groups saw their earnings

rise quite strongly in the three years 1981/82 to 1984/85, but both proportionately and in absolute terms, the highest-paid received most. That trend was reinforced by changes in the tax system, with reductions in income tax favouring the richest.

The top 1 per cent, for example, received a pre-tax increase of 35 per cent in their incomes

and a post-tax rise of 35 per cent. The comparable figures for those in the bottom half of the income scale were 23 and 24 per cent.

In 1978/79 the top 1 per cent on average paid 40 per cent of their incomes in tax. By 1984/85 that figure had fallen to 36 per cent.

There is evidence, however, of a deceleration between 1981/82 and 1984/85 in the pace of gains made by the highest-income groups. The trend towards greater inequality is much sharper in the first three years of the present Government than in the latter three covered by the latest survey.

Overall, the income tax system also remains progressive. Income tax payments have the effect of reducing the share of the top 10 per cent from 28.5 per cent of pre-tax income to 26.5 per cent of post-tax income. Conversely, the bottom 10 per cent increase their share from 2.3 per cent to 2.7 per cent.

The average pre-tax income of the top 1 per cent in 1984/85 was £48,210 (£30,940 after tax). For the bottom 20 per cent it was £2,200 (unchanged after tax).

BAe is likely to reduce its participation at Farnborough

BY MICHAEL DOWNE, AEROSPACE CORRESPONDENT

BRITISH Aerospace, the aircraft, missiles and space manufacturing group, is likely to reduce substantially its participation in next year's Farnborough International air show.

It is also examining the possibility of running its own private air show at its Dunsfold airfield in Surrey as an alternative to Farnborough.

Any final decision to cut down, or even withdraw, from the biennial Farnborough show, run by the Society of British Aerospace Companies, would almost certainly result in other major companies, especially from overseas, following suit.

The Farnborough, Hampshire show, which attracts about 300,000 visitors, vies with the Paris air show as the world's biggest.

British Aerospace is in the middle of a programme aimed at reducing costs by one-third across the entire group by the early 1990s.

The review of air show activities forms part of the cost-cutting programme. The rising expense of taking part in major

air shows - in addition to Farnborough and Paris they include Hannover, Singapore, Japan, China, Chile and Indonesia, and this number is tending to increase - has become an acute problem not only for BAe but also for other companies. BAe's direct costs for the 1986 Farnborough show are understood to have amounted to about £2m.

This includes several hundred thousand pounds paid to the Ministry of Defence to make demonstration flights with military aircraft such as the Tornados, the cost of buying extensive chalet space, entertainment costs and the cost of executives' time.

BAe is understood to have told the SBAC Council this week that its participation in next September's Farnborough flying display will be limited to its Advanced Turbo-prop airliner and that it is also reviewing the extent of its other involvement in the static exhibition and in chalet space.

Although no final decision has been taken, any reduction in its involvement will be regarded as giving the lead to

other big aerospace companies which have felt for some time that the proliferation of international air shows has become counter-productive, although they tend not to say so publicly.

BAe believes it can benefit commercially to a greater extent at lower cost by bringing important guests privately to the UK and then housing, entertaining and briefing them in quieter surroundings.

Two years ago, British Aerospace experimented with an extensive exhibition and flying display of its own wares at its Dunsfold airfield before several thousand specially invited guests.

Although expensive, it was much less costly than participating in either the Farnborough or Paris shows and had the advantage that BAe was on its own premises, giving it greater control over the event and providing opportunities for a calmer appraisal of its wares by foreign visitors. BAe may well consider undertaking such a display again.

Milkmen plan protest over franchise deal

BY OUR LABOUR STAFF

ABOUT 350 milkmen employed by Northern Dairies in Merseyside and parts of Lancashire are to refuse to collect cash from customers in protest at a company plan to franchise them their rounds.

The company is said to have rejected an alternative scheme put forward by the milkmen's union Unadew for them to establish a workers' co-operative to share the risks of self-employment.

The Northern Dairies plan is one of a number by dairy companies to transfer their milkmen to self-employed contractors, or pay them on a commission basis, depending on the amount of goods they sell.

The milkmen's union claimed yesterday that the company had refused to negotiate any part of the package, which the union described as "vastly inferior" to those of other companies.

It said that the milkmen were being asked to pay a £3,000 bond from their redundancy payments for acceptance on the new franchised round and were also being charged £89.50 for use of a depot.

Rank seeks launch of pay TV

BY RAYMOND SNOODY IN LONDON

THE RANK Organisation, one of Britain's leading leisure groups, is seeking permission from the Government to launch a subscription television service over normal broadcasting transmitters similar to the successful Canal Plus in France.

Rank, which is prepared to invest between £50m - £100m in the project, believes it could offer a new channel of premium programming - including recently released feature films, drama and sports events - by 1990 if permission is given in time.

During the last three years in France, Canal Plus has attracted more than 2m subscribers paying about £15 a month with its subscription television service based largely on films.

"This is just a natural way to send films to the home," said Mr Michael Gifford, chief executive of Rank.

Rank has been discussing the project with a Department of Trade and Industry committee.

The engineers have already decided that it is possible to have a fifth UHF channel capable of reaching between 60-70 per cent of the population and a sixth channel capable of reaching 50 per cent.

Rank said yesterday there was also enough unallocated VHF spectrum for another programme service which could give coverage for more than 70 per cent of the UK population.

Rank is proposing to erect its own transmitter network which would cost about £15m. A scrambled signal would be broadcast and turned into a clear television signal by a de-coder plugged into the television set.

If the service was launched on VHF, the de-coder would also convert the VHF signal into UHF so existing television sets could

be used.

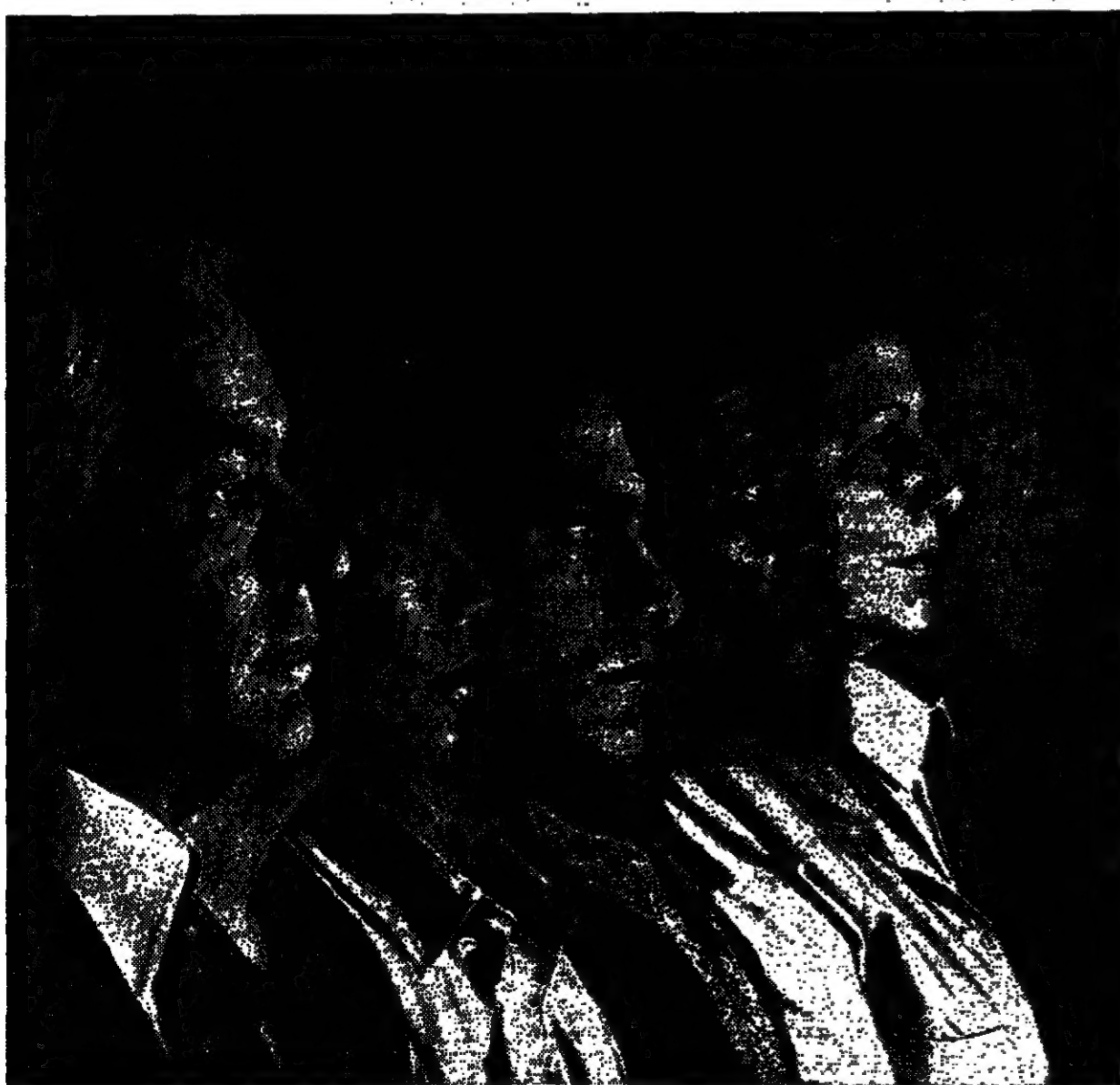
The company believes that the aerial and de-coder could sell for less than £100 - much less than satellite receiving equipment.

Subscribers would pay between £8 and £12 a month to receive up to 60 films and Rank believes that there is a potential demand of up to 3m subscribers.

The company is also looking at the possibility of co-operating with the BBC which has been investigating the possibility of a film subscription service.

Rank wants the issue of new broadcast channels to be included in the first of two Broadcasting bills planned by the Government to allow a 1990 start.

Although the DTI is said to be enthusiastic about a subscription service, it is not clear how this would affect British Satellite Broadcasting - the £825m Direct Broadcast Satellite venture



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grinding machines, linear motion products, textile machinery components, aerospace components, fasteners and other mass-produced precision products.

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DTI predicts investment at record levels in 1988

BY SIMON HOLDENTON

INVESTMENT in British manufacturing is expected to surge next year, exceeding for the first time the peak established in 1978 by the department of Trade and Industry yesterday.

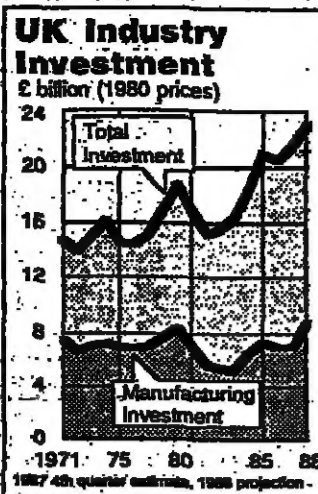
The DTI's survey of industry's investment intentions for 1988 shows that manufacturers expect to invest 11 per cent more in real terms next year than they did this year.

Total manufacturing investment is forecast at \$5.4bn in terms of 1980 prices next year. This compares with \$3.2bn in 1979 and a low point of \$5.55bn in 1983.

The department's survey, which is generally regarded as a good indicator of investment intentions, underscores the strength and buoyancy of the British economy, which is evident from recent data on industrial output and employment.

However, the survey was conducted before the mid-October share price collapse and some uncertainty therefore surrounds its findings. Although many independent economists feel there could be little or no effect on business confidence from the collapse, the Bank of England and the Treasury believe much more data is needed before firm judgments can be made.

Against that, it does support the findings of a Confederation of British Industry survey of



investment intentions published last month. The CBI found that 70 per cent of its survey group planned either to increase capital spending or keep it at the same levels as this year.

The DTI survey also shows that on a four-quarter estimate, manufacturing investment will be 6 per cent higher this year than in 1986. This compares with an estimate of 4 per cent higher in the DTI survey published in June.

In 1988, direct investment in

manufacturing is projected to rise by 12 per cent. The largest increases are expected in the vehicles, process, mechanical and electrical engineering industries.

Direct investment in plant and machinery is expected to increase substantially, as manufacturers respond to existing capacity constraints, but investment in new building works is expected to be lower than during this year.

Investment in construction, distribution and selected service industries is expected to advance by 6 per cent next year to \$14.8bn. Growth is expected to be largest in retail and catering, construction and road transport, and finance industries, the department said.

The department's survey of investment intentions forecasts total manufacturing investment this year at \$7.5bn compared with \$7.1bn in 1986.

Total investment is forecast to rise 8 per cent to \$23.3bn next year from \$21.5bn this year, and \$20.2bn in 1986. Separately, the DTI released revised estimates of capital expenditure figures for the third quarter which showed the manufacturing, construction, distributive trades and financial industries invested 5 per cent more in real terms over the last 12 months than the preceding 12 months.

Authorities seek extra health cash boost

By Alan Pike, Social Affairs Correspondent

HEALTH authorities, which this week received a £101.5m cash boost from the Government to meet immediate pressures, are to seek another £200m for next year.

A delegation from the National Association of Health Authorities is to meet Mr. Tony Newton, Health Minister, in the next few days to discuss the difficulties facing the National Health Service.

The association will tell Mr. Newton that the extra £101.5m allocated to the Government for the 1988-89 financial year needs to be increased to more than £200m to avoid a repetition of the current crisis.

Mr. Philip Hunt, director of NHAHA, yesterday welcomed the extra £101.5m for the current year. But he said that the "turbulence of the last four months," during which health authorities had been forced to seek emergency savings, could have been avoided if the additional cash had come sooner.

Some health authority leaders consider £101.5m to be insufficient, but believe the Government's decision to make the extra money available should make immediate problems much less acute. Health service managers have already begun to look at problems that are likely to arise next year.

Although the Government regards the extra £101.5m as a cash boost, health authorities have said it is insufficient. The sum is based on the assumption that inflation will be 4.5 per cent, but that will depend on the combined effects of pay and price rises next year which will put the inflation rate for them at 5.9 per cent.

The Government's failure to fund the full cost of national pay awards is a main source of friction between health authorities and the Government. Two surveys of the effects on health authorities of the underfunding of pay awards and price inflation in the current year both point to a shortfall of around 1.5 per cent, or £170m.

Mr. Hunt said that the financial position next year based on the Government's proposed extra £101.5m was going to be very tight.

The Government plans to set up a unit to advise health authorities on ways of generating income. Mr. Hunt said that health authorities should welcome some commercial opportunities, such as shops in hospitals, which would benefit staff and patients. But authorities expected to raise at most £500,000 a year from these methods, in the context of average budgets of £50m.

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Government plans to stick to water privatisation timetable

BY RICHARD EVANS

THE GOVERNMENT'S policy on water privatisation, published yesterday, confirms the determination of ministers to stick to their timetable in privatising the first batch of water authorities by the end of 1989.

Mr. Nicholas Ridley, Environment Secretary, confirmed in a Commons written answer that the NRA would take over the regulatory functions of the public sector, together with a range of river functions such as water resource planning and control, land drainage and flood prevention, fisheries and navigation.

The statement was warmly welcomed by one authority chairman, Lord Benger of South Devon, but the remaining nine chairmen and the Water Authorities Association expressed varying degrees of reservation.

It is not yet clear what size the NRA will be, detailed negotiations will continue with the authorities. About 6,000 employees in the 10 authorities now carry out the functions to be transferred to the NRA.

The Government is sensitive to claims that the NRA will turn into an unwieldy and expensive quango. Every effort will be made to encourage the privatised authorities to contract for many of the NRA functions, such as flood protection.

Mr. Ridley confirmed that the NRA, which will have a board of up to 12 members appointed by ministers, would have a substantial regional presence and its administrative areas would coincide with the present river basin areas of the authorities.

The NRA will charge the pri-

vatized authorities for its services but it is estimated it will have an annual deficit of \$33.4m which will be met by the Treasury.

Once the bill preparing the way for privatisation reaches the statute book early next year, each authority will be asked to submit a detailed plan on how it intends to transfer functions.

The Water Authorities Association said it was disappointed that ministers had not adopted the options it had put forward for the NRA, which would have preserved the concept of integrated river basin management. The Government's solution was bound to result in extra costs and the loss of many positive benefits.

In considering any contracting out arrangements, the WAA said these would have to avoid further uncertainties for staff and confusion of responsibilities.

Mr. Ridley defended the creation of the zones, saying they were among the first steps taken by the Government to encourage enterprise and lift the burden of excessive regulation from industry.

One criticism of enterprise zones, which offer a range of planning and fiscal incentives, including exemption from rates, is that they have attracted investment into the zones to the detriment of surrounding areas and have thus moved problems around.

Mr. Ridley defended the creation of the zones, saying they were among the first steps taken by the Government to encourage enterprise and lift the burden of excessive regulation from industry.

The NRA will charge the pri-

Takeover bid price rules are relaxed

By Clay Harris

THE TAKEOVER PANEL indicated yesterday that a company planning to mount a takeover bid would not necessarily have to match the price it paid for shares in a target company before the October stock market crash.

The panel, which polices the City's self-regulatory structure for mergers and acquisitions, signalled the new flexibility as part of its first post-crash revision of the Takeover Code.

The change is primarily intended to allow agreed takeovers, which could otherwise be blocked by a technically, to proceed. It does not necessarily shift the advantage in a hostile takeover attempt towards the bidder.

The panel said a bidder would normally have to match the best price paid for any share in the three months immediately before the launch of the bid.

The rule replaces wording that required a general offer to match any purchase made when a bid had been "reasonably in contemplation". The rule change removes the need for the panel to make a subjective judgement about a company's intentions.

In both cases, the purpose of the rule is to guarantee that all shareholders are treated equally. In its guidance notes to the new rules, however, the panel makes clear that "in exceptional circumstances," it will entertain requests that an offer be permitted that does not match a price paid less than three months previously.

The factors to be considered by the panel in such a case include whether a purchase was made at the prevailing market price, subsequent changes in the market price, the size and timing of the purchase and the attitude of the target company.

This will give the panel the flexibility to release a bidder caught by a change in external circumstances from having to make an unrealistically high offer or, more likely, not making an offer at all.

In many cases, the panel argues, shareholders would prefer to be allowed to take an offer that looked low by pre-crash standards rather than none at all.

The main purpose of the rule - the equal treatment of shareholders - would be upheld by the panel's power to require the matching of a price paid more than three months previously if shares had been bought from directors or others closely associated with the target company.

The rule change and the implied underlying flexibility, not expected to have a significant effect on takeover activity.

The panel noted that three months was actually longer than the period that had generally been applied under the existing rule.

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Maxwell eyes New York Post

BY RAYMOND SNOODY

MR. ROBERT MAXWELL, publisher of Mirror Group Newspapers, confirmed officially yesterday for the first time that he is having talks with Mr. Rupert Murdoch about the possible purchase of the loss-making New York Post.

The rival newspaper proprietors created an avalanche of rumours last week when they met several times within a matter of days in the UK.

Mr. Maxwell, who has built up a heavy concentration of interests in the US, helped to solve the mystery yesterday when he told American correspondents in London that he was talking to Mr. Murdoch about the ownership of the New York Post.

He is looking at one of the properties and one of them is the New York Post.

Mr. Maxwell also announced yesterday that Mr. David Montgomery, head of publishing at business publisher McGraw Hill, had joined his US operation as head of publishing.

Today, the national daily newspaper owned by Mr. Murdoch, is to close its Birmingham printing operation.

In future the colour tabloid will depend on its other two printing plants at Poole, near Heathrow Airport, and Manchester.

Mr. David Montgomery, editor and managing director, said yesterday it no longer made economic sense to print at three sites.

either side on the future of the New York Post.

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Today, the national daily newspaper owned by Mr. Murdoch, is to close its Birmingham printing operation.

In future the colour tabloid will depend on its other two printing plants at Poole, near Heathrow Airport, and Manchester.

Mr. David Montgomery, editor and managing director, said yesterday it no longer made economic sense to print at three sites.

New Sellafield plant to reduce radioactivity

By Maurice Samuels

BRITISH NUCLEAR FUELS has chosen Davy McKee, the British arm of the Davy Corporation, to design and build a plant to reduce radioactivity discharges into the Irish Sea from BNFL's nuclear reprocessing site at Sellafield in Cumbria.

The project, worth more than \$100m, will be the centrepiece of BNFL's \$500m ongoing investment in efficient treatment plants at Sellafield, where total long-term investment is expected to reach \$2.7bn.

Sellafield's discharges into the sea have been frequently criticised by environmental groups such as Greenpeace and by the Government of the Irish Republic.

BNFL says the discharges have been reduced substantially in recent years and levels for long-lived radioactivity are only 8.4 per cent of previous peak discharges, and shorter-lived material 1.3 per cent of the previous levels.

When the plant comes into operation it would contribute significantly to the continuing programme of reductions in discharges.

The structure, to be called Earp (Enhanced actinide removal plant), will take about \$50 jobs - some 250 for Davy McKee Nuclear at Stockton and Sellafield, and 300 for the size subcontractors.

Earp is distinct from the £1.65bn Thermal Oxide Reprocessing Plant (Thorp) being built to reprocess used fuel rods from nuclear reactors, converting them into uranium for re-use and also producing plutonium.

Housed in a reinforced concrete structure about 70 metres long, 44 metres wide and 34 metres high, Earp will treat the waste stream from the reprocessing plant.

Davy was one of three companies invited to tender for the contract.



THE GOVERNMENT'S seasonally adjusted unemployment total fell by 63,500 last month to 2,649,000, marking the 17th consecutive monthly fall, the Employment Department said yesterday, writes Philip Stephens. The unadjusted total, which includes school-leavers, fell by 66,000 to 2,689,000.

The jobsless total has fallen in all regions over the past 12 months but there are still wide disparities between employment in different parts of the country. The unemployment

rate of 6.6 per cent in the south-east compares with a UK figure of 9.5 per cent and a rate of 17.6 per cent in Northern Ireland. Among the other unemployment blackspots are the north of England, with a rate of 13.4 per cent, Scotland (12.6 per cent) and Wales (11.3 per cent).

The lowest rate, according to the official figures, is in East Anglia where 6.5 per cent of the population is receiving benefit.

Change in Lloyd's US tax status shelved

BY NICK BUNKER

LOYD'S OF LONDON is hopeful that it has escaped the threat of an upheaval in its US income tax affairs as a result of Congressional efforts to reduce the US budget deficit.

The London insurance market learned yesterday that a joint Senate and House of Representatives committee had backed on a House proposal to tax Lloyd's syndicates as though they were insurance companies.

The joint committee has instead asked US Treasury officials to conduct a study of the federal income tax status of Lloyd's and its 31,000-plus mem-

bers. Mr. Jim Jaffe, an official with the House Ways and Means Committee on Capitol Hill, said the Senate and the House had also agreed to ask the Treasury to renegotiate the 1984 "closing agreement" that governs Lloyd's US tax affairs.

Lloyd's had feared that the original proposal would force it to abandon its three-year accounting period. The proposed tax change was one of many revenue-raising options contained in a budget reconciliation bill passed by the House this autumn.

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Bae to set up enterprises division

By Michael Dorne, Aerospace Correspondent

BRITISH AEROSPACE, the aircraft, missiles and space manufacturer, is setting up a division to manage and develop a number of the group's investments in subsidiary and associated companies.

One is the Flying College, recently established at Farnborough in Hampshire, which includes activities such as electro-optics, image processing, advanced manufacturing techniques, wind generation and equipment for detecting drug smuggling.

The objective of the division, BAE Enterprises, is to exploit worldwide the group's development of technology and products.

A new, wholly-owned subsidiary of BAE, British Aerospace Simulation, is to be included and will bring together BAE's scattered interests in aircraft simulation. One possibility is that the company will bid for Rediffusion Simulation, the aircraft simulator manufacturer, which is expected to be sold by its parent, BET.

Sir Raymond Lygo, chief executive of BAE, said yesterday that no decision on bidding for Rediffusion Simulation had been taken.

A potential development would be the establishment of an aircraft simulator division in Washington to train pilots of US operations.

Sir Raymond said the group's plan to cut costs by as much as 33 per cent by the early 1990s was on target. He said that between 1981 and the end of last year BAE had reduced its staff from 29,179 to 24,914 and at the same time increased the value of sales per employee from £20,588 a year to £41,875.

Shipowners appeal for help

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

SHIPOWNERS yesterday called for urgent help from the Government to reverse a 12-year decline in the number and tonnage of UK ships.

The General Council of British Shipowners, which represents 110 shipping companies, released a 30-page analysis of options for government action, ranging from income tax relief to capital investment allowances.

The analysis has been sent to Mr. Paul Channon, the Transport Secretary, and other ministers, in an attempt to stimulate a Cabinet debate on shipping before Mr. Nigel Lawson, the Chancellor, delivers his next Budget in March.

GCBS officials admitted that they were not optimistic of a change in the Government's unsympathetic reaction to previous appeals for help.

UK NEWS

Liverpool to get £26m waterfront development

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

A £26m DEVELOPMENT for Liverpool's waterfront will aim to turn it into one of Europe's leading leisure, sports and tourist attractions.

Five private-sector developers, each in charge of a separate project, are involved in the scheme, announced yesterday, and the Government is giving a £2.3m urban development grant.

The centrepiece will be an £8.5m international arena, a 60-metre by 30-metre ice rink and seating for 7,000 spectators. This will allow Liverpool to host world and European ice sports championships, the first time Britain has been able to offer such facilities.

The five projects are complementary to each other and to the adjacent Albert Dock redevelopment, where the Tate Gallery is to open its northern branch next May. Merseyside Development Corporation, which owns the land, expects building to start immediately.

About 700 permanent jobs will be created, with 900 others generated by construction over the next two years.

The scheme will benefit Merseyside's developing tourist industry, which expects 6m visitors a year by 1993 to sustain 2,000 jobs on the waterfront. Albert Dock alone has attracted 2.5m people this year. The MDC recently completed the restoration of 98 acres of waterways in the formerly redundant south dockland. The new developments will be on the site of the old Kings Dock.

Mr David Trippier, the minister responsible for regional affairs, welcomed the centrepiece project as of national and international significance. It is being developed by Arena Associates, which is linked informally to Wembley International through common investors and directors. The major financial backing, however, will be foreign and is to be announced shortly.

Shorts back in trading profit

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

SHORT BROTHERS, the Belfast aerospace manufacturer, made substantial progress in 1987-88, recovering from the setbacks of the previous year.

Sir Philip Foreman, chairman and chief executive, said yesterday the company earned a trading profit of £9.5m in the year to the end of March, compared with a trading loss of £13.6m in the previous year. Turnover increased by 12.5 per cent to £225m.

However, the company's annual report shows that design, research and development expenditure of £10.1m more than absorbed the trading profit, leading to a small loss before interest of £165,000, compared with £21.6m in 1986.

Sir Philip said: "Because our working capital is provided entirely from commercial sources, we had to pay £19.8m in interest charges on those bank borrowings. This charge resulted in an overall loss for the year of £19.8m, compared with a loss of £37.2m in the year before."

Sir Philip said that during the year there was recovery in all three major sectors of the business (aircraft manufacture, missiles and structures) as new product lines came on stream and problem areas were tackled.

Price Waterhouse fee income up 30%

BY RICHARD WATERS, ACCOUNTANCY CORRESPONDENT

FEE INCOME at Price Waterhouse rose by 30 per cent to £153m in the year to September 30, underlining the strong growth of accountancy firms in the past year.

The figures come a week after Arthur Andersen reported 30 per cent growth and PricewaterhouseCoopers 28 per cent. They are expected to push Price Waterhouse past Coopers & Lybrand in volume terms to become the country's second largest firm.

Management consultancy provided the strongest growth at Price Waterhouse, with fee income up nearly 50 per cent to £63.9m.

The number of hours worked by Price Waterhouse staff, for which fees were charged, rose 12 per cent. The difference between this and the growth in fees gives a clue to the firm's profitability. Mr Jeffrey Bowman, senior partner, said the cost of staff and investment in training and technology made this a less reliable guide to profits than in the past.

Price Waterhouse expects reduced growth next year, but reports strong demand for computer-related services.

The tax department fee income grew 32 per cent to £30.1m, audit 26 per cent to £28.1m, and investigations 21 per cent to £12.4m.

BBC fails to have injunction lifted

By Raymond Hughes, Law Courts Correspondent

THE BBC yesterday failed to rid itself of a temporary injunction that has stopped it broadcasting a Radio Four series on the British security services.

A High Court judge decided that Sir Patrick Mayhew, QC, the Attorney-General, had a good arguable claim for a permanent injunction and that more harm might be caused to him and the country if the temporary order were discharged than might be suffered by the BBC if it were continued until the full trial.

Mr Justice Owen gave his judgment in public after a private hearing last week. He refused to narrow further the terms of the injunction, which had been modified by agreement last week.

He said the injunction had been sought by the Attorney-General to protect, in the public interest, the secrecy of the British security services.

To end the injunction would be to deprive Sir Patrick of an opportunity to achieve that and might "do harm to the security of the realm."

To continue it until trial would only mean postponing the BBC's right to publish if it won the case.

The judge said that the series - *My Country Right or Wrong*, which included interviews with past and present members of the security services - was intended by the BBC to be a serious and responsible contribution to public debate on security services in a democratic society.

The BBC had refused to accept the terms of the first programme. Pre-trial procedural rules would now require it to be disclosed. If Sir Patrick did not object to any part of it on the ground of a breach of the duty of confidentiality owed by security service members there would be no impediment to the broadcast.

If there was an objection the case should be tried as soon as possible, the judge said.

Men and Matters, Page 14

Clay Harris on the man taking a senior role at N.M. Rothschild US exile at home in City banking

EVERY EXPATRIATE has an explanation. Professionally, Mr Fred Vinton could be described as a Glass-Steagall exile.

The US law which strictly separates commercial and investment banking was one factor which prompted Mr Vinton, a US citizen, to accept appointment as chief operating officer at N.M. Rothschild, the UK merchant bank.



Fred Vinton: facing an irreconcilable challenge.

After 10 years in London in several senior positions with Morgan Guaranty, the US bank, Mr Vinton concluded that the relative freedom of the City - and the challenge of co-ordinating the disparate strands of the far-flung Rothschild empire - was an irreconcilable proposition.

Mr Vinton's appointment, announced this week, is the latest signal that Rothschild has grown too large to remain a family-run bank. In the newly-created position, he will answer only to Mr Evelyn de Rothschild, chairman, who is giving up his role as chief executive to concentrate on long-term strategy and development.

Although Mr Vinton will be one of the few Americans to hold such a senior position at a UK merchant bank, his nationality is an irrelevance both for him and for Rothschild, which was attracted by the breadth of his international experience and his 25 years at Morgan Guaranty.

His main current project, advising Scandinavian Airlines System on its partial offer for British Caledonian Group, has delayed his appointment, due to take effect on December 1, until the middle of next month. The battle will have been won or lost by then, Mr Vinton said yesterday.

The battle for BCal is not the first time Mr Vinton has found

himself on the other side of the table - metaphorically, at least - from Mr Paul Channon.

Mr Channon, now Transport Secretary, was Trade and Industry Secretary last year when political pressure prompted the Government to block the proposed takeover of Land Rover by General Motors, which was advised by Morgan Guaranty.

However, Mr Vinton has not found that being a US citizen has been any detriment, even in such politically sensitive circumstances. Moreover, he does not expect to face any resistance on that score as he moves to Rothschild from the scarcely less venerable house of Morgan.

"I don't feel like an American," he says. Indeed, few of his 49 years have been spent in the US. He was born and spent his first 13 years in Argentina, where his father worked for Citibank.

Although he graduated from Harvard and served two years as an officer in the US Navy, Mr Vinton has never been tight. "Being brought up outside the US," he says, "I had no particular ties; no old school buddies; no old house to come home to, no old club."

Joining Morgan Guaranty in 1962, on his father's advice, Mr Vinton worked in New York for six years before returning to his native Argentina to run the commercial and treasury operations of Banco Frances del Rio de la

Plata, which was 44 per cent owned by the US bank.

For four years from 1973, he ran Morgan Guaranty's Latin American operation from New York.

Mr Vinton came to the UK in 1977, initially as general manager of Sandi International Bank, the consortium bank in which Morgan Guaranty holds a 20 per cent stake. He moved in 1980 to become general manager of the London branch of Morgan Guaranty Trust, and subsequently was also appointed as area head for the UK, Ireland and Scandinavia.

He became vice-chairman of London-based Morgan Guaranty Ltd last year. He presided over the creation of the bank's gifts dealer and the integration of its European security business.

In 1986 he began to concentrate solely on merger and acquisition business for corporate clients.

He first met Mr de Rothschild on September 30, 1984, at the Bank of England's secret Sunday night rescue of Johnson Matthey Bankers. Subsequently, professional and social contacts led to an initial job offer late last year.

His ultimate decision to cast his lot in the UK was affected by more than professional considerations: he has been married since 1983 to Mr Anna Hawer, founder and co-owner of the Rejet Shop retail chain.

Turkish yarn 'a threat to British producers'

BY ALICE RAWSTHORN

THE TEXTILE industry has warned the Government that a continued influx of cheap acrylic yarn from Turkey could cause serious problems for British yarn producers.

For months the industry, in common with other European textile sectors, has lobbied the European Commission to secure agreement for the imposition of voluntary restrictions on acrylic yarn imports from Turkey.

The industry had hoped that such an agreement would resolve the issue. But when the EC negotiations with the Turkish Government were concluded last night, the maximum level of imports was not reduced, as the industry had hoped, but increased.

Under the new agreement, imports of Turkish acrylic yarn next year will be restricted to 5,000 tonnes. This represents a slight rise on the estimated level

of imports this year. The industry claims that this increase could destabilise the yarn spinning sector in Britain.

Mr Alistair Henderson, president of the Confederation of British Wool Textiles, has requested an urgent meeting with Mr Alan Clark, Trade Minister, to demand that the agreement be reviewed.

The flow of Turkish yarn into Britain began in earnest two years ago. In 1984 imports from Turkey amounted to just 45 tonnes, according to the British Textile Confederation. By last year this influx had increased to 3,227 tonnes.

So far there is little evidence that the influx of cheap Turkish yarn has damaged the British manufacturers in Lancashire and West Yorkshire. However, there have been recent reports of short-time working in Yorkshire mills.

Minister will discuss Housing Bill concerns

BY ANDREW TAYLOR

MR WILLIAM WALDEGRAVE, Housing Minister, has said he will meet local authority leaders to discuss their concerns about the Housing Bill currently going through the committee stage in Parliament.

Mr Waldegrave has asked officials to set up an agenda for a series of meetings to take place early next year between ministers and council leaders.

The proposal for talks was made earlier this week at a meeting between Mr Waldegrave and local authority representatives.

The Government considers its measures to encourage greater private investment in rented housing will stand a better chance of success if broad agreement on its proposals can be reached before the main part of the bill is introduced.

Labour members on the Commons committee take the view

that their best chance of amending the bill lies in persuading Government that private investors will not risk their money while there is a chance that a Labour government might reverse its measures.

Committee hearings that began this week were punctuated by numerous references from Labour members about the need to return to a consensus between the parties on housing policies.

A series of amendments demanding that existing safeguards on assured tenancies be maintained was defeated by 16 votes to 13.

Significantly, however, Mr Waldegrave did not rule out the possibility of further discussion over whether landlords offering assured tenancies should be required to register with an approved body.

THE PROPERTY MARKET

Conferring business on Edinburgh

By William Cochrane

PETER EYLES, son-in-law of the late Sir Maxwell Joseph, is in the business of making money from hotels. In pursuit of that objective, he says, he could spend three years merely approaching one hotel acquisition.

There are other, more public approaches. This week, for the same reason, he proposed to do for the Edinburgh office property market what Rosehaugh Stanhope's Broadgate development is doing for the City of London - in pre-empting a large slice of the city's office property needs with one major development.

Mr Eyles is managing director of Norfolk Capital, the upstart mobile, yet traditional, hotels group which aims to give businessmen a bit more than a plastic box to sleep in. A little over a year ago, he bought two of Scotland's best-known hotels from Guinness, virtually doubling the size of his company in the process.

The hotels are the five-star Caledonian and the four-star North British, respectively located just off the western and eastern ends of Princes Street, Edinburgh's prime shopping street and a major tourist attraction. However, hotels prosper on high occupancy ratios and the

climate on Scotland's eastern seaboard does not enhance its tourist attractions between November and March.

The obvious answer is to attract conference business, and the businessman Norfolk Capital likes to coddle. What Edinburgh lacks is a major conference centre.

Edinburgh knows that. Plans exist for a £30m conference centre on a site just behind the Caledonian Hotel. Involving the district and regional councils and the chamber of commerce, the project needs government capital and the Treasury has been considering whether to authorise the Scottish Development Agency, which is responsible for much industrial and inner city regeneration in Scotland, to invest £10m in the project and unlock other official funds.

The city fathers did not like it this week when Heriot-Watt University announced a 700-seat conference centre to be built for £3m on its Riccarton campus eight miles west of the city centre - somewhat tactlessly proposing to call it the Edinburgh Conference Centre. How will they take to Norfolk Capital?

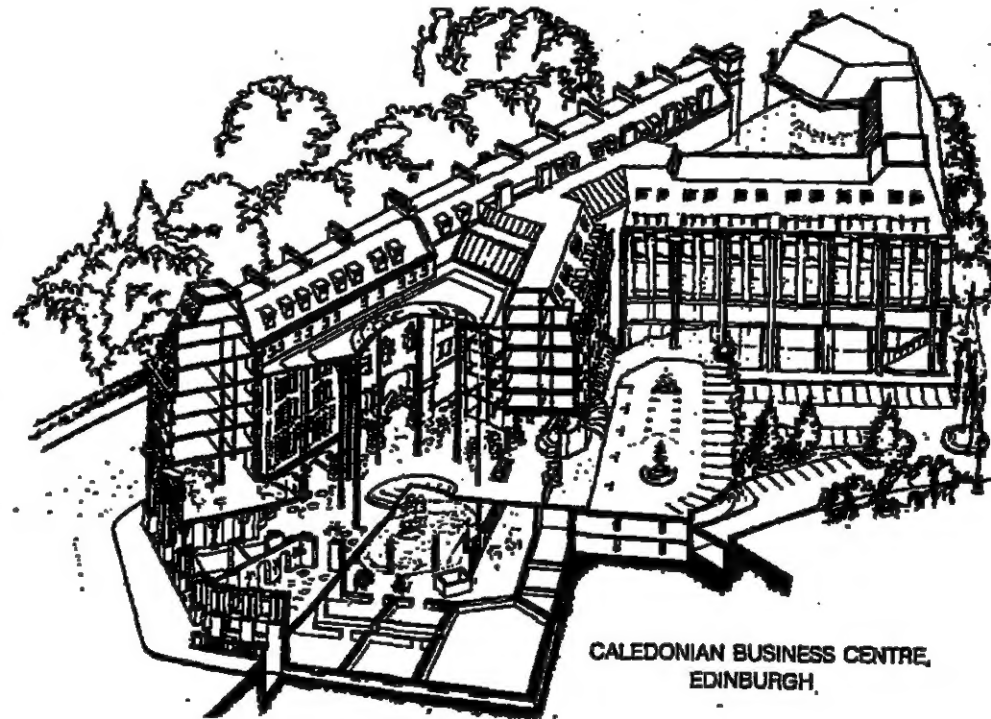
Mr Eyles believes that the government does not like Scotland enough to authorise the SDA

spending. So he has come up with a scheme of his own to generate £30m of development profit which, he says, he is quite prepared to donate to the cost of the conference centre. This, of course, would do wonders for the Caledonian's occupancy ratios and, he says, give a lift to the North British despite the fact that it is a mile away.

His planning application covers Phase 1, 100,000 sq ft of neo-classical office space to be known as the Caledonian Business Centre to be built in the hotel car park. Phase 1 also includes the realignment and expansion of the Caledonian Hotel itself in a redevelopment which would add 40 bedrooms, reception, function and banqueting facilities.

Phase II would entail Norfolk constructing a 120,000 sq ft of neo-classical office space to be known as the Caledonian Business Centre to be built in the hotel car park. Phase 1 also includes the realignment and expansion of the Caledonian Hotel itself in a redevelopment which would add 40 bedrooms, reception, function and banqueting facilities.

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CALEDONIAN BUSINESS CENTRE, EDINBURGH.

in Edinburgh this week that the congested access to the Caledonian, at the corner of Princes Street and Lothian Road, would be dealt with by creating a new reception area at the rear - "a garden forecourt, a glass, so that people will come to the city and meet in the Caledonian." There would also be a new leisure complex and an arcade linking Princes Street with the new reception area.

Within the major office development, he said, Norfolk's team would reflect the triangular

shapes of the New Town in Edinburgh.

Meanwhile, the North British is not going to see a major development. Not any more. Under its former parentage, the building with its six basement levels and access to Waverley, Edinburgh's main railway station, was subject to redevelopment proposals which would have taken the core of the hotel and turned it into an hotel/shopping centre hybrid.

Luckily, says Mr Eyles, that option lapsed. Now he is proposing to restore it to the condition it was in when it was built in 1902, a year before the Caledonian.

It has been hidden away, a little. The architect for this project, Patrick Beardon of the Richmond Design Group, talks of "grand volumes of space, immensely decorative, and unfortunately covered with too many coats of paint."

Mr Eyles is proposing to reduce the number of rooms here from 220 to 208 and spend £15m over 62 weeks to June or July of 1989.

The battle for office space

By James Buxton

"WE COULD let 300,000 square feet of office space now if we had it," says Mr Jim Fiddes of Kennedy Edwards and Partners, one of Edinburgh's leading chartered surveyors.

In the past two years rents for prime location office space - in Charlotte Square, the heart of the financial district, for example - have risen from between £8 and £7 per square foot to £10 and even up to as much as £12.

The expansion of financial services - employing at least 18,000 people - is the main cause of the rise. But the growing demand, fuelled also by the generally improving economy, is running up against a logjam in the supply of office space which is only now beginning to be broken.

Mr Fiddes' rough figure of 300,000 square feet needs to be set against the fact that a recent survey of the city's financial institutions which showed that by 1992 they expect to require an extra 450,000 square feet of space on top of their existing 1,500,000 square feet - a 40 per cent rise. That does not include demand from other sectors.

Fearful that new jobs in financial services might go to Glasgow for want of space in Edinburgh, the four-controlled district council this

year signalled the loosening of constraints which have been in force since 1974.

The projects now look set to go ahead. One is a scheme promoted by Murray International Metals which includes about 350,000 square feet of office located at Fountainbridge, at the outer end of the west-central area, south of the existing foot of district.

And only last week the district council approved a project to fill the Castle Terrace site, once destined for an opera house. On it is to be built a prestigious financial centre, complete with auditorium and public rooms, and 130,000 square feet of office space, promoted by Noble and Co, the finance house, and Scottish Metropolitan Property.

But between these two projects stretches the empty wastes of the Lothian Road site, now a car park. It is here that the city wants to build its international conference centre complex, which will include 400,000 square feet of office space, and where Norfolk has now put up a rival scheme. Until this site is filled both developers and tenants may be reluctant to go beyond it. And it will be several years before the pipeline comes to fruition. In the meantime rents should continue to climb.

Tesco did not have direct bearing on the meaning of section 28(3)(b). The 1968 Act was criminal legislation, expressed in very different terms.

Texton contended that section 28(3) was intended to relieve a proprietor who was blameless and should therefore be interpreted in favour of restoration of the patent.

That argument begged the question, it did not advance the matter to ask whether Texton was blameless, since that was much the same as enquiring whether Miss Pointer's mistake was within Texton's control.

With regard to the language of the statute itself, the comptroller's argument seemed as unavailing as it was simple. Substitution of the name of Texton for "the proprietor" in section 18(3) was argued, and then asked, whether failure to pay the renewal fee was beyond Texton's control. Plainly not, it was said, for nobody else made the relevant mistake - only Texton.

Payment of the fee was not the subject of any duty on the proprietor's part, but was a prerequisite of the patent's continued existence. When choosing a particular way of keeping the patent in being, a proprietor was not

delegating anything, but was simply organising part of his business.

There was nothing anomalous in holding that if he organised it so that the requisite steps were to be performed by those he employed and could therefore control, their mistakes should be for his account under section 28(3)(b). If he contracted the matter out, he would not suffer for the contractor's mistakes.

On the ordinary meaning of section 28(3)(b), the omission by Texton's employee was not a circumstance beyond its control. The appeal should be dismissed.

LORD JUSTICE FOX agreed. LORD JUSTICE CROOM-JOHNSON, also agreeing, said that if one substituted Texton for "the proprietor" in the patent at the beginning of section 28(3)(a), and for "his" in section 28(3)(b), the meaning was clear. Miss Pointer's failure to carry out the necessary check was within Texton's control.

For Texton: Simon Thorley (Nedham & Gray); Nicholas Pumphrey (Comptroller General of Patents).

By Rachel Davies, Barrister

RE TEXTON INC
Court of Appeal (Lord Justice Fox, Lord Justice Croom-Johnson and Lord Justice Mustill):
December 3 1987

A SYSTEM for checking patent renewals is under the patent-owner's "control" if he set it up within his own organisation and accordingly a patent which lapses through his employee's failure to operate that system correctly will not be restored to the register.

The Court of Appeal so held when dismissing an appeal by Texton Inc from Mr Justice Whitford's decision upholding the Comptroller of Patents' refusal to restore a lapsed patent.

Section 28 of the Patents Act 1977 provides that where a patent has lapsed through failure to pay a renewal fee, the proprietor may apply within one year to have it restored and the Comptroller must restore it if he is satisfied that:

(3) (a) the proprietor... took reasonable care to see that any renewal fee was paid within the prescribed period... and (b) those fees were not paid because of circumstances beyond

his control."

LORD JUSTICE MUSTILL said that although a grant of letters patent took effect for 20 years, section 25(1) of the Patents Act 1977 stipulated that it should cease to have effect at the end of the period prescribed for payment of any renewal fee.

Where a patent lapsed through failure to pay a renewal fee within the prescribed period, the proprietor might apply within one year to have it restored.

By section 28(3) of the Act, the Comptroller must restore the patent on payment of the fee if satisfied that the proprietor had taken "reasonable care" to see it was paid in time, and if it was not paid because of circumstances "beyond his control".

The present appeal was concerned with a patent owned by Texton. The first renewal fee was due on August 20 1983. The period of grace expired on February 20 1984 without any payment having been made. The patent lapsed.

The reasons for Texton's failure to pay the renewal fee were that in 1981 it entrusted renewal of its patents to a specialist organisation called Computer Patent Annuities Inc (CPA). Texton supplied data for CPA's computer and, when a patent fell

FT LAW REPORTS

Employee's error loses patent

due for renewal, CPA sent Texton reminders.

Texton also received warning notices sent out by the Patent Office.

It devised a system whereby a Miss Pointer would check any Patent Office notices to make sure they related to patents which it had decided to renew. Any notice which did not relate would be brought to the attention of Mr George Galenstein, who was responsible for Texton's industrial property matters.

Two mistakes were made. The first was made by CPA, as a result of which the relevant entry disappeared from its computer so that no reminder was generated. The defective system was changed in 1982.

The second mistake occurred in Texton's office. If its system had worked correctly, the Patent Office notices would have been checked against Texton's

records, and it would have been discovered that the patent was not being abandoned.

That did not happen. The mistake came to light in April 1984 when a lapsed notice was received by Texton from CPA. Mr Galenstein realised there had been an error, because a corporate proprietor was concerned with the renewal fee. Texton applied for reinstatement of the patent.

The superintending examiner found that Texton had taken reasonable care to see the fee was paid at the proper time, by putting the matter in the hands of professionals, and that CPA's error in entering the details of the patent was due to circumstances beyond Texton's control.

But he also found that Miss Pointer's mistake in overlooking the reminder was not beyond Texton's control, so that it failed to satisfy section 28(3)(b). He therefore dismissed the

application. Mr Justice Whitford upheld the decision for substantially the same reasons.

On the present appeal the dispute centred on the meaning of "beyond his control" in section 28(3)(b). Texton said Miss Pointer's mistake was beyond its control, because where a corporate proprietor was concerned the word "his" denoted only the higher management of the company.

First, it was suggested that it was appropriate to apply the concept of *respondent superior* by attributing to Texton the act of its servant. The doctrine extended the area of responsibility for the wrongful act of a servant - the servant remained liable for the wrong, but the master was answerable as well.

That concept had no bearing on the case. Miss Pointer committed no wrong vis a vis any third party when she failed to operate the system correctly.

Vicarious liability in tort had nothing to do with the case, which was concerned, not with a servant's wrongful act, but with whether the servant was within Texton's control.

Second, it was contended that authoritative guidance was to be found in *Tesco Supermarkets* [1972] AC 153 which related to a corporate offence under the Trade Descriptions Act 1968.

Section 20(1) of that Act provided that where an offence was attributable to any "director, manager, secretary, or other officer" of a company, he as well as the body corporate was guilty. Section 24(1) provided that in the absence of a failure by the higher management, the company had a valid excuse.

That concept had no bearing on the case. Miss Pointer committed no wrong vis a vis any third party when she failed to operate the system correctly.

How Blyth travelled the same road as Apple's bandwagon

Its reputation founded on a relational database for the Macintosh, the small UK company has gained market leadership in a major industry sector

THE DIRECTORS of Blyth Software, a small but rapidly expanding company based in Saxmundham, Suffolk, are either enormously lucky, enormously gifted or, most likely, a judicious mixture of the two.

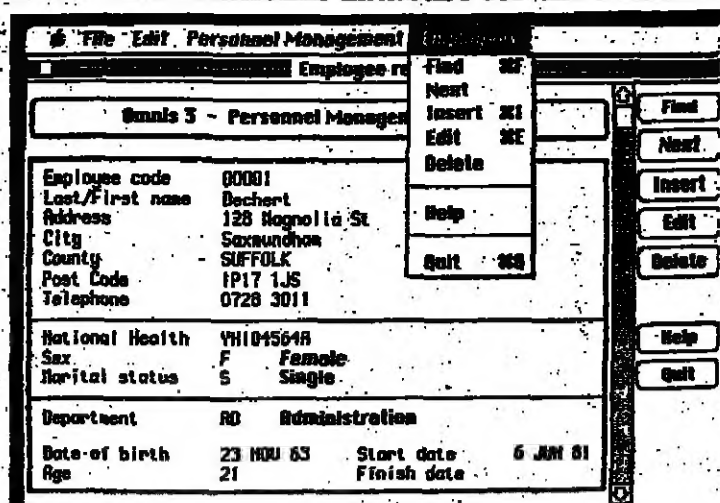
Blyth - it is named after the river that runs through the quiet East Anglian village - is one of the very few UK software companies which can legitimately claim to have market leadership in a major industry sector.

Its reputation is founded on the relational database software it wrote for the Apple Macintosh microcomputer; its future, however, is tied to a version of the same software it has developed for the IBM Personal System/2 microcomputer.

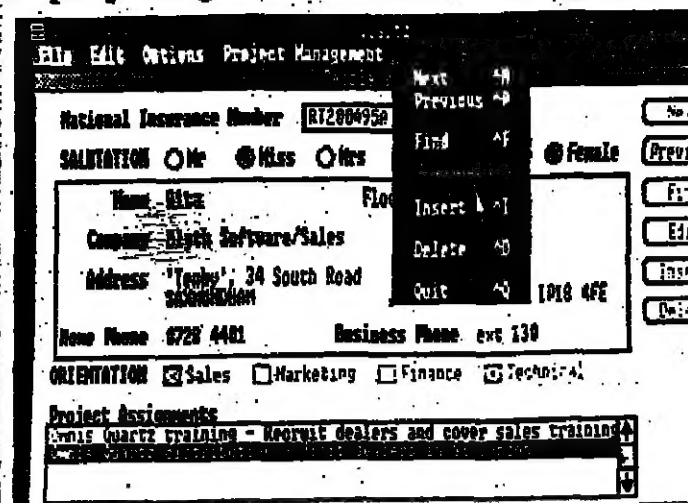
Why should it be considered lucky (or merely brilliant)? First, it wrote its Apple relational database, Omnis, at a time when there was no certainty that the Macintosh would prove a commercial winner.

The Macintosh was considered an idiosyncratic machine at the time it followed ideas for the interworking of man and machine developed at Xerox's Palo Alto Research Center but which were relatively new to the data processing community - ideas like video screens which could be divided into separate windows and pictures on screen to indicate commands to the user.

It was also, in its first incarnation, hopelessly short of memory (128,000 characters), and a little



Paul Wright, founder and managing director of Blyth Software, liked the Apple Macintosh approach (left) to screen layout. His new product, Quartz (right), uses the same technique in conjunction with IBM's Personal System/2



This "Presentation Manager" is an advanced part of the operating system for the PS/2. It will not be available until late next year.

Functionally, however, it is identical to Microsoft's own graphics management software "Windows"; Omnis Quartz runs happily under Windows software, and Blyth believes it has up to a two year lead in the development of relational database software for the PS/2.

Was the company lucky to decide to carry out its development on Windows or was it excellent judgement of the way the market was going? It argues that PS/2, Windows and Presentation Manager signal a major change in the personal computer market towards the use of mouse-driven, graphically oriented user interfaces and that it is well positioned to take advantage of that change.

The market for all microcomputer database software is expected to be more than \$800m a year by the 1990s.

Over 50 per cent of Blyth's earnings come from the US at present which is one reason it decided to raise money earlier this year on the New York stock market. It raised \$7m just before Black Monday when the bottom fell out of stock markets around the world. Wright recalls the perspiration which accompanied his anxiety until the money was safely in the bank.

Now that was luck!

insubstantial, compared with the IBM PC or compatible model from rival manufacturers. Nevertheless, Paul Wright, the company's managing director was impressed: "We liked the Macintosh approach. We were convinced it was the right way for us to go."

The machine gradually began to find favour both in the educational and business community, especially after the arrival of a version sporting 512,000 characters of memory, but Blyth still lost a lot of money in its first years of trading in the US. The

US, in fact, did not make any significant contribution to the company's revenues until the middle of 1985.

Now the company has sold or licensed some 50,000 copies of the Omnis family of programs worldwide.

Relational databases are the most technically sophisticated and exciting development in file management. The theory is that the information in the database is stored in such a way that the relationships between different pieces of data can be clearly expressed.

The data can be viewed from a number of different angles. To take the example of a typical company's records, a manager might want to know the performance of all the salesmen on the staff. The personnel officer might want to know their ages and details of their pension plans. The salaries department might want details of their pay rates to date.

The principles of relational database management were established in the 1960s and 1970s by the IBM researcher, Ted Codd.

Blyth's software expert, David Seaman, a trained mathematician was only vaguely aware of Codd's work when he set down to write the relational version of Omnis - the result was unique; a relational database which also had elements of the traditional hierarchical approach.

Wright says: "We would not have done it that way if we had known of Codd's work". Relational database management systems like Omnis have another special quality. They resemble fourth generation languages, computer software

which makes it easy to write computer software. According to Blyth, Omnis allows users the flexibility to create their own applications.

While the Macintosh version of Omnis has been the primary contributor to the company's present \$4m turnover, it has not neglected the IBM marketplaces. Its most recent product is a new version of Omnis, Quartz, which runs on the IBM Personal System/2 under graphics management software developed by the major microcomputer software company Microsoft.

Software solution will take 10 years to mature

COMPUTER aided systems engineering (case) methods are the most promising solution to the "software crisis", but it will be at least a decade before companies start to use them in a big way.

So says a new and detailed report on commercial strategies for the case market from the consultancy Ovum, published this week.

It says that while the market growth of case products will continue to be spectacular, with short-term growth rates approaching 100 per cent, it will take at least 10 years for case to mature. There are many major commercial and technical decisions to be taken before the use of case reaches the status of a major technology in widespread use by software development professionals.

Case methods are designed to make use of computer power to help software specialists develop programs more rapidly and efficiently.

At present, according to Julian Hewitt and Tony Durham, the authors of the report, large software projects - that is those involving more than 60,000 lines of computer code - end up on average costing twice as much as initial budgets.

They are typically delivered up to one year late - a quarter of them are never delivered at all. The report records a survey of 125 companies, carried out in the US by Applied Research of New Jersey, which showed that as many as 75 per cent of all software projects are cancelled - often because the projects are obsolete before they are completed.

And quality of the finished product is often low - two thirds of the computer specialists employed by most companies are tied up on full time "maintenance" - repairing errors in the software or putting right features that were written wrongly the first time round.

Case methods offer some prospect of an end to this waste of time, effort and money. The Ovum report distinguishes three groups of case products: integrated project support environments "spes", computer systems which manage and control large projects, code generators which automatically produce computer code from high level specifications and programming and analysis workbenches, which aid the systems analyst in the early stages of the project.

Case methods undoubtedly work. The Ovum report quotes the example of Information Engineering Associates, a group providing development services inside the massive Du Pont chemical company.

It has made extensive use of a case tool called Application Factory from a small software house called Cortex; now it is actually involved in funding development work at Cortex.

An early example involved the development of an inventory control system for a particular kind of carpet fibre. Estimates of the effort required to write the system using traditional methods varied from 28 person months to 38 person months.

Using Application Factory the development took only five person months at a cost of \$8,000 a person month. That meant a saving of \$138,000 or over 80 per cent of the estimated cost of the project.

The productivity gains measured at Du Pont were in the region of six to one.

So if it is that good, why isn't everybody using it? The fact is that there are some hefty barriers to the easy adoption of case methods, even where they can be seen to work.

The report notes, for example, that the Hartford Insurance Group in Connecticut developed a case tool it named "The Solution". It set up a spin-off company, Hitech, in association with the microcomputer manufacturer Wang to market the system.

At Hartford, the product could be shown to have given productivity improvements of up to 30 per cent, yet after extensive marketing and no sales, the project was abandoned.

The chief difficulty seemed to be that while prospective customers recognised the advantages of the system in use at Hartford, they were unable to carry out a similar analysis in their own organisations.

Jack Crawford, former president of Hitech says: "The assumption with our product was that the leading corporations had a common life cycle for all their applications development and an effective measure of productivity. Many had neither. These are the nation's biggest companies. That is what is so surprising and disturbing."

Indeed, it seems that of the million or so professional software developers in the US, only about three per cent are actively using case products.

Reflecting Jack Crawford's views, the report concludes that the difficulty of measuring the effects of software engineering is a major factor holding back their wider utilisation.

"The difficulty of estimating and collecting 'metrics' about software development means that most organisations have no basis for cost justifying investment in case, because they have no means of measuring its impact," the report points out.

Many organisations are therefore investing because of their "gut feel" that something needs to be done to improve software development.

Furthermore, in the main, case products have been developed and endorsed by small companies. IBM has conspicuously stayed on the sidelines, in computing circles the world's largest manufacturer has to show obvious interest before a new market can be regarded as legitimate.

Digital Equipment (DEC), on the other hand, has developed a set of case products, the Vaxset, and is encouraging third party software developers to create products for use on DEC hardware.

Today's case technology may be only, as the report notes, a first nervous step along the long path of providing automation and support for software engineering methods, but it is already worth \$140m a year in the US alone.

By 1991 it should be worth over \$1bn, but there is likely to be a drastic reduction in the number of suppliers. Too many, Ovum says, are small and unable to survive the long selling cycles involved in marketing these products.

"Computer-aided software engineering: commercial strategies, Ovum, London (01) 637 4661, 2,895 (US \$395).

Christmas is a crisis time.

Hostel in danger of closure.

The animal hostel in Harrogate run by the Animal Hostel Trust desperately needs help to keep its doors open this Christmas. Hundreds of unwanted and abandoned animals need its shelter. Nursing care and nurturing before being re-housed to responsible owners.

Please send kind donations to:-

"Animal Hostel Appeal"
c/o Barclays Bank
South Tyneside Branch
234 High Road
N15 4AN

Lovell
for
construction

Numbers underline IT interest

ONE MEASURE of the interest developing in methods of integrating information technology into business strategies is rapidly growing membership of special interest groups like the UK Computer Measurement Group (CMG) and the UK Society for Information Management (SIM).

The CMG, started just over a year ago expected 100 delegates to its first conference and actually had 251.

Now it has over 1,100 members and is Europe's largest non-vendor driven group for medium to large scale users and suppliers. Its next conference, "The Effective Management of IS Resources" will be held at the Savoy Hotel, London, on January 18.

The group's main conference "Effective IT" will be held in Harrogate between May 16 and 19, 1988, when speakers will include Gene Amdahl and Iain Barron.

Make the ultimate decision. Give one to someone else.

John
BLACK

10
MANAGEMENT

Robert Maxwell: a lone striker or a team player?

Michael Skapinker examines the style of the enigmatic head of the rapidly expanding UK-based group with interests ranging from printing and publishing to football

"IT'S JUST NOT true," says Robert Maxwell, when reminded that this newspaper once called him the most unwilling delegator in modern business. "If you can run a business that employs 45,000 people and be the worst delegator - you're welcome."

The average newspaper reader or television viewer could, however, be forgiven for thinking Maxwell still runs his empire single-handed.

One moment he is in Paris, winning a stake in the French television channel TF1. A short while later he is in New York, masterminding his bid for the US publisher Harcourt Brace Jovanovich. The bid fails, but, undeterred, he sweeps into Tokyo with plans for an international English-language newspaper which will provide news from Japan.

He did, it is true, delegate the chairmanship of Watford FC to John Holloran, his executive vice chairman and head of his UK printing operations, when he bought the club recently from the rock singer Elton John.

But then Maxwell is already chairman of another football club, Derby County. And it was Maxwell, not Holloran, who defended the decision to buy Watford and who lambasted the Football League's administrators for being "incompetent, selfish, bungling amateurs".

And yet there is a certain logic to Maxwell's insistence that he could not possibly run businesses as large as his without delegating substantial responsibility to others.

Maxwell Communication Corporation (formerly the British Printing and Communication Corporation) is now the largest printing business in Europe and one of the largest in the United States. It was constructed on the base of the old struggling British Printing Corporation, which Maxwell acquired in 1981 and restored to health - a feat which many in the print industry had adjudged impossible.

Also under the MCC umbrella is Pergamon Press. This includes Pergamon Journals, the scientific and technical publishing business which Maxwell built up after the Second World War, only to be ousted from its board in the disastrous setback which culminated in a 1971 Department of Trade and Industry report declaring him unfit to exercise proper stewardship of a publicly quoted company. No charges were brought against him and he regained control of Pergamon in 1974.

The Maxwell family also owns Mirror Group Newspapers and has a controlling interest in Hollis, the engineering, timber, financial and professional services company.

And yet he finds time to stalk the financial services group Guinness, to run football clubs, to take charge of last year's Commonwealth Games, to head an AIDS trust. How does Robert Maxwell manage?

To hear his senior executives and supporters in the City tell it, MCC has undergone a substantial transformation. Apart from changing its name, they say, it has also altered its management style.

Maxwell himself is concentrating far more on the strategic management of the group, they contend, leaving day-to-day matters to newly-appointed professional managers like Holloran and James Sullivan, who joined Maxwell last November, had previously spent 18 years with the leading US printer R.R. Donnelley. He runs the North American operation together with three other former Donnelley executives.

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You haven't reported to me. Or have you sent the reports and I haven't seen them?... Oh, you now report to John Holloran?"

Budge apparently tries to explain why he no longer reports to Maxwell. "No, no, Maxwell reassures him, 'I have enough people reporting to me. So you now report to him. Is he happy with your programme?... Where are you speaking from? Could you bring me or, if it's not convenient, send me over the copy that you gave to the board?'"

Maxwell puts down the phone. "There you are," he says triumphantly. "Mr Holloran is taking over my responsibility for management development. I'm shedding responsibilities as fast as possible in order to concentrate on the strategic planning of the group."

Maxwell tries to remember whether Holloran went to Harvard. "I don't know that he is a graduate. I think he was one of those who went to Harvard." He dives for the phone again and asks for Holloran. Holloran is in a meeting. "Everybody you want, they're in meetings," Maxwell says cheerfully.

One of his managers walks into the room. "Did you go to Harvard?" Maxwell asks him. "I did, yes," his visitor replies. Maxwell introduces him as Mr Garwood, group personnel director.

Garwood says he attended a three month course at Harvard. "And how many people do we plan to send on this course?" Maxwell asks Garwood.

"Well," says Garwood, "I hope we would get to a position where, certainly at director level, subject to your approval, we would be sending, I would hope, one senior director per year."

"I would increase that to two," says Maxwell. "Marvelous. Thank you very much," says Garwood.

A while later Peter Bouch brings in the report on management development. Maxwell orders him to hand it over to the FT. He does so without demur. The report has been prepared by the Hay Group of management consultants. It outlines the strengths and weaknesses of eleven of the group's companies and identifies their training needs.

The phone rings again. Maxwell demonstrates his celebrated ability to switch to a totally different subject. "Hello, good afternoon to you," he says. "What about 93? All right you've traded half a million at 93... What for?... what about 10?... Canadian or American? Write me a letter, I'm very pushed. We've dealt for half a million at 93."

It has been said that managers who stand up to Maxwell don't last very long. Does he welcome people who go against him? "People should go against the grain. If you don't have people who go against the grain nothing ever gets done," he says. "Organisations, like individuals, make mistakes." Including himself?

"Including myself. I above everybody else."

Kevin Maxwell

(below) on Robert Maxwell (right):

"Where he does intervene, where he does take decisions, where he's there driving it, that's inspirational. I'm certainly not afraid to say that"

And does he mind having those mis-takes pointed out to him? "I don't enjoy it, but I certainly don't object to it. And I will act on what they say. I think that's been misinterpreted," Holloran says.

Even the sceptics admit that Maxwell, much as he might like to, cannot phone everyone managers every day. "They tend to believe James Sullivan's claim that he is allowed to run the North American business himself," Sullivan says.

Maxwell maintains the financial performance of the North American company, but "on the operational side he leaves me very much alone. When I have something to discuss with him I discuss it."

It is clear, too, that John Holloran does have detailed plans for the development of his managers, and Maxwell is not aware of every aspect of them.

Perhaps of greater importance than whether Maxwell allows his managers to manage, is whether MCC will eventually have the sort of structure which could survive without him.

If Maxwell himself is to be believed, he might not have to wait long for the answer to that question. When he has moved the god he has sent for MCC, "I shall go off and smell the roses," he says. "Well so I tell myself. Nobody believes me, but there it is. They'll have to find out the hard way."

The idea that Maxwell might retire provokes disbelieving laughter among some at MCC. But Maxwell has a penchant for doing the unexpected. The possibility that he might leave MCC and devote himself instead to one of his other interests - recruiting the British engineering industry - finding a cure for AIDS or saving English football - cannot be entirely excluded.

But first he has to reach his goal of £50m in turnover. MCC expects revenue this year to be £10m. Closing the gap will require further acquisitions. The group to which Maxwell says farewell might look quite different from the MCC of today.

Whether those managers who already form part of MCC could get along without Maxwell is a question which even they would be hard pressed to answer.



Leadership

Where reality does not tally with theory

Michael Skapinker reports on a survey of managers' views of their chief executives

"WHAT MAKES a good leader?" is a question frequently asked seldom satisfactorily answered.

Europe's senior and middle managers think they know what the attributes of a good leader are. They do not, however, think that their own chief executives possess those qualities.

In a poll conducted by Management Centre Europe, 96 per cent of the more than 1,000 managers questioned said that the ability to build effective teams was a premier characteristic of the successful leader. But only 50 per cent thought that their own chief executives knew how to build effective teams.

Ninety-three per cent of the managers thought a good leader was someone who knew how to listen. But only 24 per cent of them described their own chief executive as a good listener.

"Capable of making decisions on his own" was a leadership characteristic mentioned by 87 per cent of the respondents. Their chief executives fared slightly better here. Sixty-six per cent of the managers said their chief executives were able to make their own decisions.

The next most important characteristic of a leader, mentioned by 86 per cent of the respondents, was that he or she "knows how to retain good people". Here, the performance of Europe's chief executives was little short of disastrous. Only 39 per cent of the managers thought their chief executives knew how to hold on to their best people.

Among the other attributes mentioned, 78 per cent of the managers thought that it was important for a good leader to have "high ethical standards". Just 48 per cent of the managers thought their own chief executives were sufficiently ethical.

Only 35 per cent of the managers questioned thought that a good leader should be motivated by power. Yet 58 per cent of them thought that their own chief executives were motivated by a desire for money.

A mere 17 per cent thought that a good leader should be motivated by financial rewards. Forty per cent of the managers, however, thought that their own chief executive was motivated by a desire for money.

Did the managers think they would make better leaders than the current generation of European chief executives? Those respondents who were under 40 were reasonably modest. Only 6 per cent of them thought they could acquire the attributes of leadership through "suitable management development". Only 10 per cent said that they definitely did not have the qualities needed to step into their chief executive's shoes.

Of these managers over 40, 12 per cent thought they already possessed the necessary attributes of leadership.

A further 37 per cent thought they could acquire the right qualities through suitable management development. Twenty-seven per cent were certain that they did not have the potential to be good leaders.

Which country, in the opinion of European managers, produces the best leaders? Just over a quarter of the sample voted for the US and a quarter for Japan.

German, Austrian, Swiss and Scandinavian managers tended to put Japan before the US. On the other hand, managers from France, Spain, Italy and Britain thought that the US was way ahead of Japan when it came to producing leaders.

What of the European countries? Don't any of them produce leaders? Here, MCC said, "there was a definite case of managerial chauvinism, with the French, Germans, British and Italians voting heavily for themselves. Taking out those 'home' votes reduced European leadership to practically nil, with only Germany making any impression at all with a tiny 5 per cent."

When asked which individual leader they admired most, Europe's managers ignored the world of business altogether and voted overwhelmingly for Mar-gary Thatcher. The British Prime Minister got more than twice as many votes as the Soviet leader, Mikhail Gorbachev, who came second. A corporate leader, Lee Iacocca, did come third. He was followed by Pope John Paul II.

The survey, available from Management Centre Europe, Rue Caroly 15, 1040 Brussels, Belgium, Free.

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Which country, in the opinion of European managers, produces the best leaders? Just over a quarter of the sample voted for the US and a quarter for Japan.

German, Austrian, Swiss and Scandinavian managers tended to put Japan before the US. On the other hand, managers from France, Spain, Italy and Britain thought that the US was way ahead of Japan when it came to producing leaders.

What of the European countries? Don't any of them produce leaders? Here, MCC said, "there was a definite case of managerial chauvinism, with the French, Germans, British and Italians voting heavily for themselves. Taking out those 'home' votes reduced European leadership to practically nil, with only Germany making any impression at all with a tiny 5 per cent."

When asked which individual leader they admired most, Europe's managers ignored the world of business altogether and voted overwhelmingly for Mar-gary Thatcher. The British Prime Minister got more than twice as many votes as the Soviet leader, Mikhail Gorbachev, who came second. A corporate leader, Lee Iacocca, did come third. He was followed by Pope John Paul II.

The survey, available from Management Centre Europe, Rue Caroly 15, 1040 Brussels, Belgium, Free.

Did the managers think they would make better leaders than the current generation of European chief executives? Those respondents who were under 40 were reasonably modest. Only 6 per cent of them thought they could acquire the attributes of leadership through "suitable management development". Only 10 per cent said that they definitely did not have the qualities needed to step into their chief executive's shoes.

Of these managers over 40, 12 per cent thought they already possessed the necessary attributes of leadership.

A further 37 per cent thought they could acquire the right qualities through suitable management development. Twenty-seven per cent were certain that they did not have the potential to be good leaders.

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The Financial Times proposes to publish the above survey on Friday 26th February 1988.

For further information and Editorial Synopsis please call Joe Bell on 01 248 0769.

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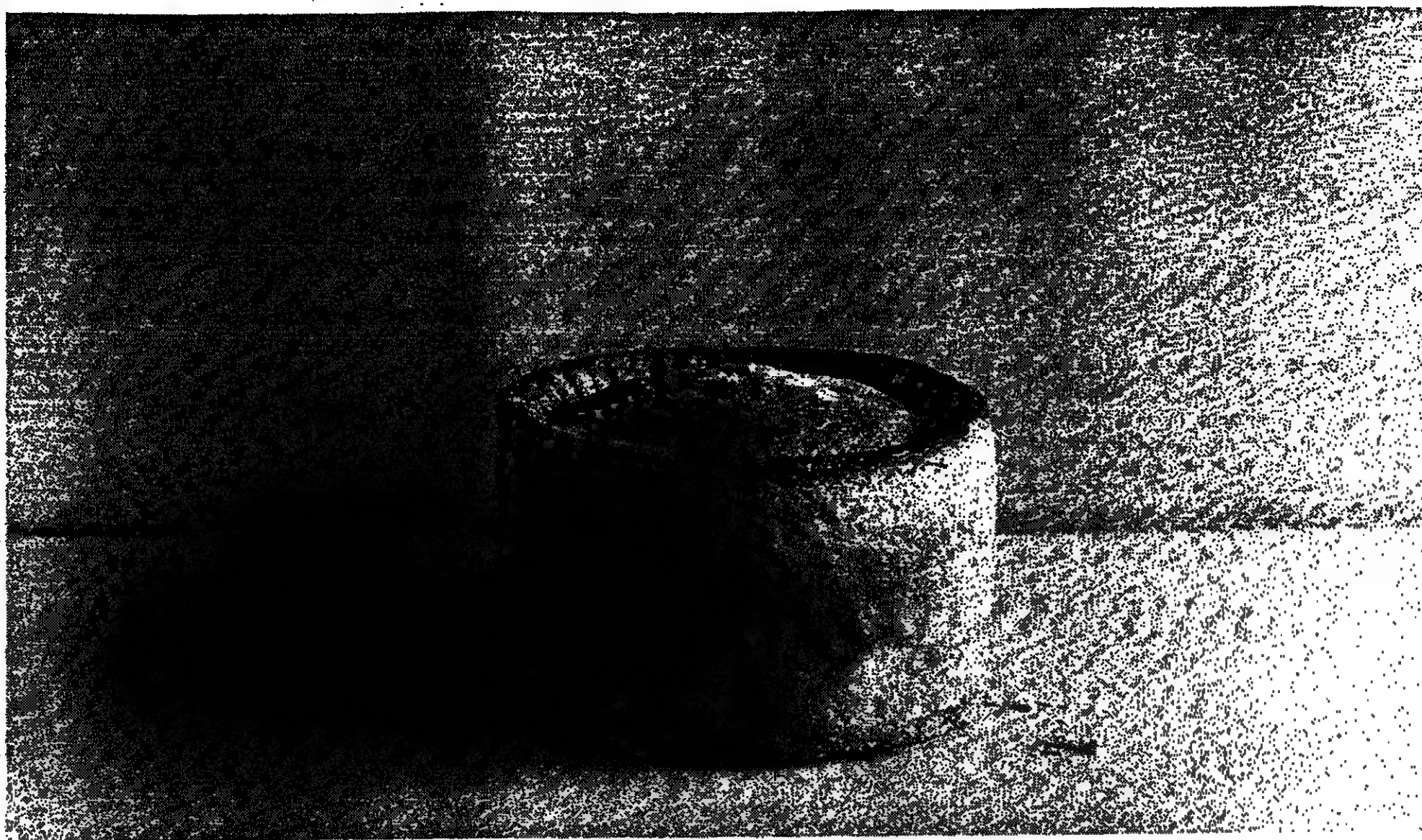
We inform the bondholders that the redemption instalment of ECU 6,250,000 - nominal due on February 7, 1988, has been satisfied by a drawing on December 8, 1987, in Luxembourg.

The bonds will be reimbursed at par on February 7, 1988, coupon due on February, 1989 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:
9899 to 16118

The following bonds called for redemption on February 7, 1987, have not yet been presented for the payment:

25352 - 25361	25364 - 25367	25330 - 25331	25720 - 25723
25772 - 25776	25825 - 25826	25872 - 25875	25968
25970	26025	26146 - 26155	26173 - 26214
26262 - 26272	26311 - 26321	26367 - 26377	26379 - 26388
26683 - 26689	26862 - 26864	27026 - 27029	27134
27161	27257 - 27259	27268 - 27300	27365
27893 - 27894	28090 - 28091	28151 - 28156	28446 - 28451
28596 - 28599	28716 - 28724	28729 - 28735	28749 - 28758
28792 - 28815	28826 - 28837	28849 - 28855	28906 - 28915
28960 - 28961	29159	29351	29413 - 29429
29581 - 29588	29706 - 29711	29813	29815 - 29822
29824 - 29826	29835	29978 - 29992	30523 - 30527



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ARTS

Arts
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18 19 20 21 22 23 24

Theatre

LONDON

The Rover (Mermaid). Jeremy Irons returns to the stage in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. It plays in repertoire with the Cherryl play. *Sarcophagus*, an urgent but clumsily crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in. (236 5565/558 8891)

A Man For All Seasons (Savoy). Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren. (836 9888)

Antony and Cleopatra (Olivier). Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life. *Judd Dench* and *Anthony Hopkins* are battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. (222 2252)

The Phantom of the Opera (Her Majesty's). Spectacular emotionally arousing now mutated by Andrew Lloyd Webber emphasizing the romance in Leroux's 1811 novel. Happens in a wonderful Paris Opera ambience designed by Maria Blomson. (339 2944, CC376 6151/240 7200)

The Balcony (Barbican). Sully dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs. *Fatma's* set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging costumes. (222 8795)

Follies (Shaftesbury). Stunning revival directed by Mike Ockent and designed by Maria Blomson. *Sondheim's* 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs. Improved book by James Goldman. Cost led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good. (379 5385)

Melina (Haymarket). Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. *Menapausal* mutterings, not vintage Gray. (330 9523)

Sweeney Todd (Wyndham's). Transfer from Royal Court of Caryl Churchill's sick City comedy for champagne-swilling yuppie: how the Big Bang led to class turmoil and barrow-boy dealings on the Stock Exchange. Hot and vivid. (536 5022, CC 379 5585)

A Small Family Business (Olivier). Brilliant new Alan Ayckbourn play

NEW YORK

Fences (48th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (231-1211)

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's "children" poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality. (238 6262)

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s. *Shuffle* from the original film, like *Shuffle Off to Buffalo* with the appropriately brash and leggy hoofing by a large chorus line. (977 9020)

A Chorus Line (Shubert). The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are as audacious as the choreography. (238 6200)

La Cage aux Folles (Palace). With some tawdry Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages barely to capture the feel of the sweet and hilarious original and gaudy chorus numbers. (757 2632)

The Not Rappaport (Booth). The Tony's best play of 1986 won on the strength of its work-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6300)

Les Misérables (Broadway). Led by Colin Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama. If not strict adherence to its original sources. (238 6200)

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (558 5510)

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of *Pygmalion*, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. But it has proved to be a durable Broadway hit with its marvelous lead role for an agile, engaging and deft actor, preferably British. (347 0033)

The Mikado (BAM Majestic). Peter Brook's nine-hour interpretation of the world's longest poem inspired the refurbishment of an old Brooklyn vaudeville theatre to accommodate it for a three-month stay as part of the Brooklyn Academy of Music's New Wave Festival. Ends Jan 3 (347 8500).

WASHINGTON

Light up the Sky (Arena). The revival of the Moss Hart comedy features theatre people waiting for

the opening-night notices of their latest masterpiece. (488 5300)

TOKYO

Machbeth (Imperial Theatre). Every so often, a Shakespeare production is staged that makes one revise one's view of the play. That such a rethinking should be occasioned by a production in Japanese is nothing short of miraculous. Not only has Yukio Ninagawa transported the play from medieval Scotland into the world of the Japanese samurai, but he has brought to it an oriental sensitivity and sense of pictorial values that transcends all-language barriers. With its blood red sun and falling cherry blossoms, this is indeed one of the most achingly beautiful theatrical experiences of our time. Following its triumph at the National Theatre, London, this revival in Tokyo is an unforgettable experience. (Ends Dec 26). (201 7777)

Kabuki (Kabuki-za). At 4pm a "new" play incorporating elements from existing dramas and based on the story of the 47 loyal retainers adapted, directed by and starring Kabuki's greatest showman, *Ukifusa*, a specialist in spectacular stunts and quick-change routines. Excellent English earphone commentary. At 11pm a potpourri of short films for those with little time at their disposal tickets are available (on the day only) for a single act, but buy an English programme because the earphone commentary does not apply. (Ends Dec 25 (541 3131))

Noh (National Noh Theatre, Sendagaya). "Takekuni" (noh). "Wakana" (kyogen). Originating in sacred rituals, noh is a predominantly tragic drama of illusion played on an empty stage. Lighter relief is provided by the comic interlude (kyogen). The National Noh Theatre is a beautiful, relatively new building in a mixture of traditional and modern styles. Useful booklets in English on noh and kyogen can be purchased at the theatre's book stall. (423 1331)

Daisan Butai in "Modern Horror" (Honda Theatre, Shinjuku-Kuzawa). This extremely youthful theatre group has a large following among the rock video generation, which likes to be bombarded by sound and images. Its latest production is energetic but undisciplined and in the style of a musical revue. It aims at saying something about contemporary life, but is interesting less as a coherent statement than as an

indication of what interests and amuses young Japanese today: namely computers, robots, video, jazz dance, fashion and parodies of popular performers. (Ends Dec 28 (367 0392))

Exhibitions

LONDON

Turner in the new Clore Gallery. The Turner Bequest, which amounts to nearly 300 oil paintings, finished and unfinished, and a further 19,000 or so watercolours and drawings, has been a source of controversy and dissonance ever since it came into the nation's hands more than 150 years ago. Turner always wished for a gallery to himself which would show all aspects of his work. Whether he would have approved of James Stirling's extension to the Tate as a suitable setting is a nice question. The larger paintings may be hung too low for one who stood in a more ostentatious age, and the tasteful external walls Stirling has decreed for the principal galleries is a far cry from the rich plum he is known to have preferred. The vulgar neo-deco of the entrance hall has little to recommend it. But eight rooms for paintings and one for watercolours give room enough, and with the three reserve galleries upstairs, every painting but the few in restoration or on loan is on the wall.

PARIS

Petit Palais, Ave Winston Churchill. *Musee d'Art Moderne de la Ville de Paris*, Ave President Wilson. *Free Centuries of Spanish Art*. An ambitious ensemble of four exhibitions traces the history of Spanish art from the Golden Age to today. The two most important exhibitions are *El Greco* to Picasso at the Petit Palais and Picasso at the Musee d'Art Moderne. In the Petit Palais is *El Greco* with a vast visionary Baptism of Christ, Velazquez with a portrait of Philippe IV in his hunting clothes, and *Soya* with a portrait of Marie-Louise in a black-lace mantilla. *Picasso's* Century is dominated by the master, from the period of analytic cubism to 20 preparatory sketches for Guernica, and to his last work. But there is also Juan Gris, and *Andro*, *Dali* and *Tapiès*. Both exhibitions are closed on Mondays and both end on Jan 3.

Koto, Japanese mandolin. (Thur) (461 3175)

MUSIC

TOKYO

NRK Symphony Orchestra (NRK Hall). Bertel Klumpp conducting. Beethoven 9th. (Mon-Thur) (466 1780, 464 4800)

Kodo (Theatre Apple, Shinjuku). Virtuoso drum ensemble which employs a wide range of traditional Japanese drums and has a repertoire ranging from folk music to the avant-garde. (Ends Dec 27. (307 3558))

Yomiuri Symphony Orchestra (Tokyo Bunka Kaikan, Ueno). Rafael Fruhbeck de Burgos conducting. *with Jane Mengedont* (soprano), *Erwin Stephan* (tenor), *Ingeborg Russ* (alto), *Valdimir de Kozel* (bass). Beethoven 9th (Wed). (201 6558-9)

Michiko Kobayashi (Tokyo Bunka Kaikan Recital Hall). Bach Goldberg Variations (harpsichord). (Thur) (201 6558-9)

Sawal Kazuo's Eye to Eye (Bogatsu Hall, Aoyama). Modern music for

PARIS

Lausanne Chamber Orchestra (TMP-Chatelet). Lawrence Foster conducting. *with Sorbonne's Paris University Choir* conducted by Jacques Grimbert. *Berlioz: L'Enfance du Christ* (Mon). (42 33 44 44)

Soloists' Choir and Orchestra (Salle Pleyel). *Hugues Reiner* conducts. *Mozart and Bruckner* (Mon). (45 63 07 95)

Paris Opera Orchestra with *Jane Anderson* and *Alfred Eneas* (Paris Opera) conducted by *Michelangelo Veltri*. *Duos from Lucia di Lammermoor*, *Lakme*, *Manon*, *Arias from Manon* and *Benvenuto Cellini* (Tue). (47 42 53 71)

Neuvel Orchestra Philharmonique de Radio France (Theatre des Champs Elysees). *Mark Jaster* conducts with *Silvia Marcovici*, piano; *Tchaikovsky*, *Smetana*, *Saint-Saens*, *Respighi* (Tue). (47 20 36 37)

NETHERLANDS

Amsterdam (Nieuwe Kerk, Dam Square). *Bach's Christmas Oratorio*, *with the Utrecht Choir* and the *Netherlands Philharmonic* (Tue).

Utrecht (Vredenburg). *Handel's Messiah* with the choir of the *Utrecht Oratorio Society* and soloists conducted by *Johan van der Camp* (Tue). The choir and baroque orchestra of the *Netherlands Bach Society* conducted by *Ton Koopman* in a programme of *Bach's Christmas cantatas* (Wed). *Recital Hall*: Electronic concert, with *Karin Stahl*, mezzo (Tue) (31 45 44)

Rotterdam (Doelen). *Deo Cantemus* with songs of praise (Tue, Wed). *Recital Hall*: *Robert Hol*, bass, accompanied by *Oleg Meisenberg*, *Schumann* (Tue). *Bach cello recital* by *Heinrich Schiff* (Wed). (413 24 30)

Arnhem (Muziek Centrum). The *Netherlands Chamber Choir* under *Gusave Leonardus*, with *Bob van Asperen*, harpsichord; *Sweetelink*, *Huygens*, *Verrill*, *Hollander*, *Monteverdi* (Mon). (51 61 91)

MUSEUMS

Amsterdam (Vereeniging). *Daniel Segovia*, piano; *Beethoven*, *Schumann*, *Chopin* (Wed) (22 11 00)

NEW YORK

Orchestra of St. Luke's (Carnegie Hall). *Blanche Moyse* conducting. *Benita Valente* soprano and the *Blanche Moyse Chorus*. *Bach* (Mon). (347 7800)

Julius and Ethel (IBM Gallery, 56th and Madison). *Stuyvesant Brass Quintet*, *Bach*, *Orwell* (Mon, 5); *New York Chamber Orchestra*. *All-Bach* programme (Tue, 5). *Free*.

Elizabeth Elser, piano, and *Rolf Schulte*, violin (Merkin Hall, Goodman House, 67th w of Broadway). *All-Beethoven* programme (Mon). (332 8719)

WASHINGTON

Choral Arts Society of Washington (Concert Hall). Christmas programme (Tue). Kennedy Center (254 5776)

Seine, the Thames and Saint-Tropez. 85 Bis, Rue du Faubourg Saint Honoré (4366 9268). Ends Jan 30.

WEST GERMANY

Munich, Staatsgalerie Moderne Kunst. Shows sculpture from East Germany. A result of the cultural agreement of May 1986 between East and West Germany, this exhibition covers four decades in 150 sculptures, some larger than life, and about 50 paintings of sculptures by 51 artists. It offers a view of graphic works that have not even been seen in East Germany before. Among the artists are *Gustav Seitz*, *Fritz Cremer*, *Werner Stotzer*, *Hermann Glockner*, *Waldemar* and *Sabine Grunke*, *Ingeborg Hummel* and *Franka Lohbeck*. Ends Jan 3. *Mannheim* Stadtische Kunsthalle from Jan 23 to Feb 21.

Munich, Kunsthalle der Hypo-Kulturstiftung, Theatinerstr. 15. *Rene Magritte 1898-1967*. This is the first extensive retrospective of the Belgian surrealist shown in Germany. 140 works from museums and private collections as well as towards the end of his life. Ends Feb 14.

Stuttgart, Galerie der Stadt, Schlossplatz 2. *Max Ackermann* (1887-1975). The 100th anniversary of his birth commemorated by a exhibition of 126 drawings and 80 pictures from the main periods of his working life. Ends Feb 21.

ITALY

Rome, Villa Medici (French Academy). *Picasso - the last years* (1965-1973). The French Academy, proprietor of the Villa Medici, has mounted a riveting exhibition of etchings, drawings and oils mostly from the last five years of Picasso's life. Having practically never been ill, Picasso had to undergo a serious operation to remove a tumour in the year of convalescence. It seems that he brooded, not only about his health but about having lost his nerve and creativity. He need not have worried. The exhibition is so full of energy, invention and surprise as to be exhausting. The starting point of 1968 is chosen as the year in which Picasso began the first of his last two major series of engravings, known as the 347 Gravures. Many of these are on show and alongside these and many of the drawings have been thoughtfully placed photographic reproductions of works by *Ingres*.

Poussin, *Rembrandt*, *Goya* and *Manet* which must have been at the back of his mind as he worked. Ends Jan 12.

Milan, Palazzo Reale. *Eighteenth Century Italian landscapes* from private collections organised by the equivalent of the British National Trust, the *Fondo Ambiente Italiano*. The exhibition includes 70 delightful landscape paintings, divided into three major groups or schools - the Roman (*Van Witsel* and *Hendrik Frans Van Lint*), the Venetian (*Canaletto*, *Belotto*, *Guardi*) and the Neapolitan (*Joli*, *Bonavia*, *Tommaso Ruiz* and *Piero Antoniani*). Ends Jan 17.

NETHERLANDS

Amsterdam, Van Gogh Museum. The complete graphic work of *Tou-lous-Lautrec*. Ends Jan 17.

Amsterdam, Art Institute. 48 key Impressionist and Post-Impressionist works from the Courtauld collection tour America with paintings by *Cezanne*, *Manet*, *Renoir*, *Seurat* and *Gauguin*. Ends Jan 3.

Amsterdam, Rijksmuseum Printroom. As a pendant to the survey of landscape painting in the main galleries, the printroom is showing a fine selection of 100 17th century drawings devoted to the theme of *Land and Water*. Ends Jan 3.

Amsterdam, Historical Museum. Contemporary photographs, utensils, menus and registers chart the rise and heyday of Amsterdam's grand hotels from 1850 to 1914. Ends Jan 17.

MADRID

Fundacion Juan March. *Mark Rothko 1903-1970* includes 54 works by North American artist of Russian origin grouped by the Koon-ing and Pollack. This show was seen recently at the Tate in London. Castello 77. Ends Jan 3.

NEW YORK

Metropolitan Museum. 200 objects from the Age of Sultan Suleyman the Magnificent demonstrate the wealth and skills at the high point of the Ottoman empire in the sixteenth century through the large selection of illuminated manuscripts, the imperial wardrobe, ceramics and jewel-encrusted weapons. Ends Jan 17.

Center for African Art. *Angles on Africa*. Art features ten co-curators, ranging from an African tribesman to collector David Rockefeller, each of whom chose ten of their favourite pieces, making a well-rounded and diverse show. Other curators are writer *James Baldwin*, artist *Nancy Graves* and *Ronnie Bearden* and curator *William Rubin*. Ends Jan 3.

WASHINGTON

National Gallery. *A Century of Modern Sculpture*. The *Fatey* and *Raymond Nasher* Collection, contains major works by *Rodin*, *Picasso*, *Maillat*, *Gabo*, *Giacometti*, *Ernst*, *Moore* and *Serra*. Ends Jan 3.

TOKYO

Asahi Museum. *Edo Pastimes*. This exhibition of screen scrolls and paintings with works by courtesans in the old Yoshiwara Pleasure Quarters of Edo (now Tokyo) evokes the colourful and lively leisure pursuits of an era when the Japanese were not obsessed with work. Ends Dec 25. Closed Mondays.

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ARTS

Cinema/Nigel Andrews

Oscar favourites paraded in Hollywood

There are two separate seasons of Oscar hysteria during the Hollywood year: March and December. March is the gaudier month, casting its statues before glad-some recipients and rejoicing in the illimitable wit and wisdom of their acceptance speeches. ("I could not have won this award without the help of So-and-so, So-and-so, So-and-so and So-and-so...")

But far more intriguing for the film critic, indeed for anyone not seduced by prize-night pizzazz, is the Oscar time that comes in December. This is the month when the studios unleash their last major Academy Award contenders before the gong sounds on qualification at the year's end. In a Hollywood suddenly rampant with seasonal ingratitude, the studios take full-page *Variety* ads announcing special screenings of special films. These shows are aimed at Academy members and are identified in the advertisements by the words "For your consideration."

This December, as I can testify having just returned from Hollywood, it is the month of Spielberg's *Empire of the Sun*. Bertolucci's *The Last Emperor* and Oliver Stone's *Wall Street* among the main movie properties geared towards the 1988 Oscars.

The likeliest vote-catcher at present is *Empire of the Sun*. Spielberg's adaptation of J.G. Ballard's harrowing novel about P.O. W. life in Occupied China during World War II is far better than one could have hoped, or feared. The boy-wonder director, who had manifest trouble coping with adult themes in *The Color Purple*, here has the gift of a boy hero (played by Christian Bale) and of a subject that allows his visionary surrealism to take wing. The child's-eye view of war is evoked in wondrous images: a crippled fighter-plane hauled by a shower of welding sparks, a Japanese army suddenly materialising in an "empty" airfield, a vast and ghostly stadium stacked high with shimmering war booty (from cocktail cabinets to captured limousines). And Bale as the boy gives the best child's

performance - alert, funny, protean, touching - since Jean-Pierre L  aud in *Les quatre cents coups*.

Ballard's novel has been cleaned up a touch: few of its ghastlier cruelties and none of its determinedly excremental realism survive. But surprisingly this proves a price worth paying for the Spielberg vision. This is a Roy's Own war which still has the power to shock. The barbarities are translated into dream, but the essential originality of the book's pessimism - that we can all, not least children, learn to live with war and even find a grisly sense of "belonging" in it - does survive.

Bertolucci's *The Last Emperor* crosses earlier patches of the same country's history, being the story of China's last Imperial ruler Pu Yi. The chronicle is fascinating: a one-time infant ruler who was deposed by revolution and later drilled through history as a gardener, a soldier and even a bar room singer. The trouble with Bertolucci's movie is that it drifts aimlessly. Like opium smoke its gorgeous, narcotic images (golden costumes, Vittorio Storaro photography, a thousand extras) float on for 2½ hours, bewitching the senses and befuddling the mind. It is lovely, but where one keeps wondering, is it all going? Rather than a voyage of discovery - into a man's soul and an epoch's character - the film seems too often like a journey of enchanted, mystic obtuseness.

Gregor's mysticism could be aimed at the third of the

Oscar-bidding movies I saw in Hollywood. *Wall Street* comes from the writer-director of *Platoon*, Oliver Stone, and tells us that the front-line of Western moral agony has now moved from Vietnam to the stock exchanges. Considering that Stone made the movie well before the recent crash, he deserves the 1987 Golden Teal-leave Award for prognostication.

What he does not deserve, alas, is an Oscar. *Wall Street* begins at thumping pace, as Stone's Steadicam camera prowls the money-making labyrinths, following hot-shot, young stock-dealer Charlie Sheen as he bids first to join, then to beat, such high-rise rivals as corporate raider Michael Douglas (growing away just like father Kirk). But the movie no sooner hits its opening high than it falls back, due to heavy selling of moral messages (getting rich on the backs of others is bad) and to market interference from irrelevant characters (Darryl Hannah as Sheen's interior-decorator girlfriend). By the end, we realise that a sweetly-toned movie has failed to cash in on its topicality.

The redemptive irony, in any case, of Hollywood cinema each year is that its big Oscar favourites are often outshone by its despised commercial movies. The most enjoyable films I saw in my visit were two thrillers, both made in America by British filmmakers. Richard Scott's *One To Watch* Over Me and Adrian Lyne's *Fatal Attraction*.

Scott's film is a gilded fairy-tale with a black cutting-edge. A young New York policeman (Tom Berenger) is assigned to guard a beautiful millionaire (Mimi Rogers) who has witnessed a murder. Two questions hurray us and them: will the cop fall in love with the woman and rupture his happy home life (wife and two kids in Brooklyn) and will the yet-uncaptured killer strike again? Scott takes a B-movie-ish tale and, as he did with *Alien* and *Blade Runner*, transforms it into haute-couture cinema: fabulously lit, laced with menace and shot with a soaring visual intelligence the cinema has scarcely seen since Von Sternberg.

Scott's film has been a fair-to-good performer at the box-office, but *Fatal Attraction* has been a phenomenon. It attracts block-circulating queues, it has made 150 million dollars to date, and it has turned Lyne from a talented limy journeyman (he made *Flashdance* and *9½ Weeks*) into one of Hollywood's hottest directors.

The movie - written, incidentally, by another Britisher, James Dearden - has a simple but humming plot. Married man Michael Douglas (pre-*Wall Street*) has a one-night fling with an unstable blonde lady (Glenn Close), and then finds that the blonde wants more. And she will go to any lengths, including violence, to get it. Soon the audience is clutching their seats. Scott's *One To Watch* Over Me includes kidnapping, knives, pet-murder, a

fairground rollercoaster and any number of very nasty midnight phone-calls.

The film itself is a rollercoaster, guaranteed to give audiences a thrilling ride. High as it is not, but like much good low art it takes the pulse of an age. America is bursting with thrillers at present and a startling number of them are about sexual misadventure. And to the movies by Scott and Lyne Peter Yates's *Suspect* (dalliance and worse from Supreme Court Judge) and Roger Donaldson's *No Way Out* (sex scandal threatens Pentagon) and you might reach the conclusion that in the age of AIDS America is flashing non-stop warning lights about promiscuity. Hence, says Hollywood, may not be where the heart is, but it is most certainly where it should be.

In the performance stakes out Hollywood way, the two most determined contenders I saw were Barbra Streisand and Nick Nolte. Streisand flexes her star-quality adolens and kooky-girl charms in *Nuts*, the tale of a call-girl on a murder charge who refuses, despite counsel's advice, to plead insane. Richard Dreyfuss, Karl Malden, Maureen Stapleton and other bigwigs stand around while Barbra Streisand, in and out of court, lets rip. She is hugely entertaining, but on this evidence I would probably have supported an insane verdict.

Nick Nolte brings with him in *Witness* a film about prison life and a convict turned actor-playwright tries to go not just straight but "legit" - as America calls straight theatre - and finds a hostile world baying with prejudice (including the New York Times critic). The film is patchy and prone to platitude, but Nolte is tremendous. Like a loose-lidded steam kettle, he bursts with emotions never quite released. And he captures the labile-fear frustration of a dreamer who finds elusive the freedom to dream even when the doors of captivity have swung wide open. Watch out for his name on Oscar night.

Back here on the home front, the pickings are lean. But I shall be reviewing the Yuletide cornucopia - including Schwarzenegger in *Predator*, grizzly bears in *Bigfoot* and the *Hendersons* and many an all-star *Little Dorrit* - 3-5 stars.



Ethna Robinson and Cathryn Pope
Hansel and Gretel/Coliseum

Max Loppert

Humperdinck's opera, out of the repertoire of English National Opera for far too long, has returned there at last - it opened on Wednesday in a gala performance (attended by the Princess Royal) in aid of Save The Children. The production (sponsored by Legal & General) has been devised for active services in the festive season. This it will do, capably, for it is a show filled with theatrical and musical splendour enough to make the spirits of any even moderately opera-loving adult or child soar (Hansel is often, understandably but erroneously, considered purely a "children's opera").

But, far more than that, it is a production and a musical performance that work with quite wonderful richness on many levels beside that of excellent entertainment. I would say, indeed, that this must be counted one of the company's highest achievements in recent times - a big statement, given this particular company, but, I think, a just one.

In David Pountney's production (and very successful) new translation and Stefano Lazzarini's designs, the opera undergoes a sea-change as once recognisably truthfully itself and miraculously transformed, faithful to the core of the work's substance and creatively faithful to its narrative surface. As in the same year's *Rusalka*, the picture is released from servitude to the witch prove to have the all-too-familiar and painful tokens of violent abuse about their bodies.

Without wanting to reveal in advance the surprise of the ending - for every point and corner of Mr Lazzarini's breathtakingly brilliant design are cherishable, and should be allowed to strike the audience with maximum freshness - one may reasonably state that the scene and period have been transported from German country to English town, from fairy-tale never-never-land to the postwar era of rationing, public housing, and urban renewal. From the pullover to gas meter the period detail is accurately placed, and serves, with

quite extraordinary poetic imagination, theatrical dexterity, and unsentimental tenderness, to renew the "folk-myth" side of the fantasy for a modern London audience.

Mr Pountney's particular penchant for extracting Freudian insights from the operatic material under his hands may in advance have alarmed those members of the audience who feared a severe modernist overhauling of events, the balance of this Pountney production seems to me just about perfect (those parts of Wednesday's opening programme that were less than perfect - the cross and shudders of the splendid mobile house as it rose or fell into position - will no doubt be improved with practice).

As Michael Tanner's illuminating programme essay reminds us, the opera is a tale of the violence of the Grimm tale, just as the music might be said to be, in Mr Tanner's happy phrase, "Wagner de-rotted". In this Hansel the tone stays light. This may be a drama in which children ejected from their home and wandering a city heath by night perceive threats from unseen adults; in which a child's natural ambivalence about the mother-figure is given vivid realisation; and in which the children finally released from servitude to the witch prove to have the all-too-familiar and painful tokens of violent abuse about their bodies.

enlisted on a late-Romantic score as rich, finely-worked, and substantial as Humperdinck's. A few first-night criticisms of minor importance may be gently offered (voices and words were sometimes covered, string tone was a bit patchy in places), but the overall impression was gloriously radiant - for the dreamer and designer have re-worked as the tenderest and most lovingly poetic collation of 50s fantasy images, a very large handkerchief is recommended.

Too little space remains to do justice to the cast, for whose sharply observed, witty, freshly imagined characterizations a general bouquet of praise must serve. The Gretel of Cathryn Pope, whose soprano is filling out most beautifully, is perhaps the evening's star. Ethna Robinson's dreamy-eyed Hansel is charmingly played and expertly sung except for a touch of stridency at the top. Sandman (Susan Bulcock) and Dew Fairy (Janis Kelly) - I shall not spoil the charm of their new guises by describing them - will make even more of their songs with practice. Norman Bailey's Father is already a rounded piece of work, and the mother of this singer's special authority (it's entirely right, but still a marvelous bonus, that the house's most admired Sachs and Wotan should be in harness here).

The production's brightest stroke - it will no doubt acquire legendary status in time - is the assignment of a single singer to the roles of Mother and Witch. It has been tried before (by, for instance, Tom Hawkes for New Sadler's Wells Opera), but surely never before brought off with such a flourish of comedy, menace, and psychological insight. Mum, in hair net and slippers, is pure *Coronation Street* while the Witch divides her time between the worlds of Ealing comedy and Charles Adams. In Felicity Palmer's performance it is already a tour de force, and when the singer relaxes, smooths, and steadies her vocal line even more, it should provide a superb evening of ENO music-drama as operatic as any house musician can be engaged and

Between East and West/Hampstead

Michael Coveney

A Czech film director, Gregor Hasek, and his actress wife, Erna, fled the homeland when the former's house, also the subject of his film, was confiscated. The denounced artist has settled in New York in 1933. With his unadorned wife, Erna, he lives in a small, modestly furnished flat. The film is a poignant two-hander about the displaced artist. Mr Nelson is mining a rich vein in personal relationships subject to tangential political pressure. Last week, BBC Radio broadcast a tart and pertinent play of his, *Language Spoken Here*, in which an oppressed Polish novelist toyed teasingly in Britain with his American translator.

Short scenes with ironic captions in the preferred form. Red neon-lit subtitles run across each little fight and compromise between Sheila Allen and John Woodvine. They play a marriage at crisis point with stealth and

interestingly, the director, David Jones, who is married to Sheila Allen, has gone on the record with the play's genesis. It

relates to his own "exile" in New York, where he went to run the Brooklyn Academy for three up-and-down years, poised between a distinguished RSC and film-making career and who knows what. Miss Allen went too, but with no professional incentive.

Mr Nelson was the director's literary manager. He obviously kept up with his Joneses. Gregor is touring for theatre work on his "foreign film-maker" reputation. He lands a job in Connecticut. Everything is geared to his professional acclimatisation. Erna did not leave home, Gregor did. She left with him. Miss Allen is heavy with longing and regret, her resentment boiling in a magnificent comic scene where she is put through her paces for a putative audition as Chekov's Olga.

Miss Allen is a radiant and elegant actress, and she says much with few words. Mr Woodvine is a perfect foil, brisk and dexterous, fussy clothed and neat in movement. He has tunnel vision, but is attractively susceptible to bright lights. He returns from a shopping expedition on Fifth Avenue where he has seen a millionaire enter the Plaza and a bum stand on the same corner. "I suppose that's democracy."

The chopped up construction necessitates many scene changes and encourages you to feel the

play might be just as well served on radio. But the switches back and forth in time are cheerfully managed, and covered with plangent violin and piano music from East and West: Dvorak and Bartok, Schubert and Satie. The couple speak in perfect English to signify their native tongue, lapsing into bounced and broken Czech-English when answering the telephone or reading from the newspapers.

Gregor is given to violent fits of temper, which are then paraded as expressions of concern. Erna wails, but knows her man. One scenic juxtaposition cunningly presents the same incident in the protagonists' contrasting memories of it. I would say that at such moments - which are too few - the technique is fully justified.

The actors are holding off too much at the moment. The air between us was stiff on the opening night. But the ground-work is sure. Eileen Dias has designed the one-room rented apartment on the Upper East Side with evocative tenement and skyscraper views to the east, cleverly lit by Mick Hughes.

And how, finally, does the Connecticut debut go? On the telephone to Prague, Gregor reports that the critics were unimpressed. His work was "too European." He no more knows what they mean than they did.

Cinderella/Covent Garden

Clement Crisp

The baller-going public has a seemingly insatiable appetite for the pretty in stage design, and preferably the Victorian pretty. Chief purveyor of these delights is David Walker, whose ventures in the field range from Festival Ballet's *La Sylphide* and *Giselle* to the Royal Ballet's *The Dream*. Mr Walker has also decorated the Royal Ballet's *Sleeping Beauty*, and has now also revised and reworked his sets and costumes for the company's *Cinderella*.

Unveiled at a Royal Gala in aid of the British Lung Foundation on Wednesday night, these new decorations are quite astounding. They are, indeed, if they were any prettier, I can imagine a light nausea and palpitations might ensue. Sequins, feathery brushwork, shafts of light, velvet costumes and false perspective are the order of the day. In moderation these are the stuff of the magical; carried to the excesses of fabric, flummery and claustrophobic quaintness that are here on view, they engender in me longings for white on white and fresh air. The worst of the evening is the ballroom set, a rigid toy-theatre exercise in pink pillars, candelabra and cardboard swagging. Filled with courtiers heavily outfitted in matching mauve and red.

At his best Mr Walker can do

enchancing things: the Season Fairies and their settings are bewitching. But for too much of the ballet, extravagance seems to substitute for style, and the eye is quickly sated.

The return of *Cinderella* to the repertoire has also brought some fresh casting. Gone are the days when the original Ugly Sisters stole the scene and our hearts. The new incumbents, Derek Deane as the bossier of the pair, David Bintliff as the shy mouse - at present play their roles with comic discretion, and very welcome too. Both will find their humour in the characters, though I hope that it will not be of the flaring variety. The weight of our attention thus falls on *Cinderella* and her Prince, Maria Almeida and Jonathan Cope. They do very decently by the dancing - the staging has been much cleaned up to the outlines of the choreography - and cheat us of nothing save the feeling that romance has them in thrall and that they will live happily ever after. I hope they will learn to give themselves to the story and, believing in it, will make us believe, too. About the beautiful group of stars, for whom the LEO plays like angels. How much even the poorest Kodaly paragraphs gain from sensitive shaping and pacing! *Hary Janos* can hardly be

counted among the great (or even among the greater) Hungarian orchestral works of the century; but Masur drove the music forward with an energy, and a vigorous skill, that quite belied its earnest, provincial stature.

His selection from *Peer Gynt* was an odd, fragmented sequence, part vocal and orchestral, part melodramatic, underpinned by a spoken narration - Elder, all of whose great strengths as an opera-house musician can be engaged and

LPO/Festival Hall

Dominic Gill

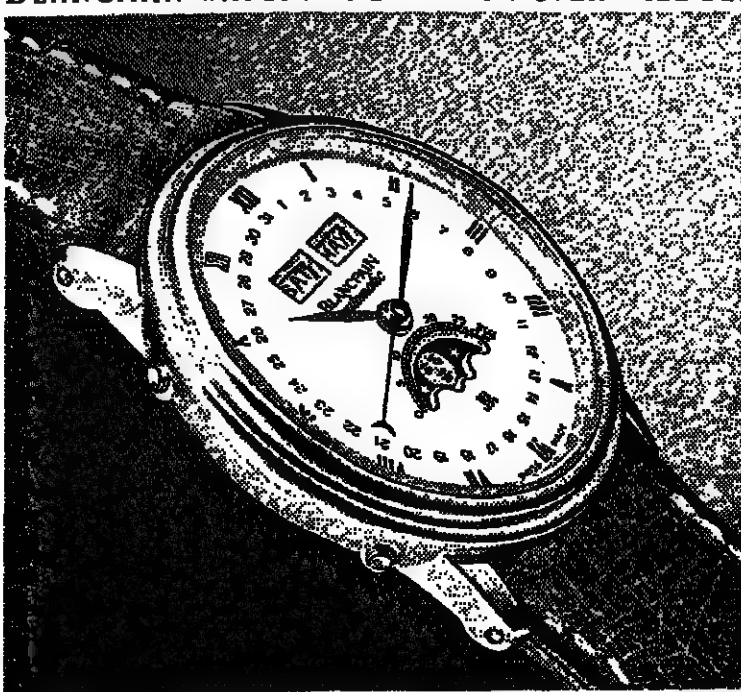
Kurt Masur's enterprising programme with the London Philharmonic on Wednesday included a sparkling account of Kodaly's *Hary Janos* suite, and an unusual concert arranged especially for concert performance by Masur himself (collaborating with Friedhelm Eberle) of a selection from Grieg's incidental music to *Peer Gynt*.

Masur is one of the conductors for whom the LPO plays like angels. How much even the poorest Kodaly paragraphs gain from sensitive shaping and pacing! *Hary Janos* can hardly be

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Arts Guide

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Opera and Ballet

LONDON

Royal Opera (Covent Garden). The company's festive season show is a revival of *L'Elisir d'Amour*, by Gaetano Cappi, conductor Gabriele Ferro.

English National Opera (Coliseum). The much awaited production by David Pountney of Humperdinck's *Hansel and Gretel* is conducted by Mark Elder.

PARIS

Lyons Opera Ballet and Magay Maria's company (Theatre de la Ville). The Seven Deadly Sins in Berthold Brecht's and Kurt Weill's *Black Universe Searching for Peace*. (42 74 27 77).

Rudolf Nureyev's production of Tchaikovsky's Nutcracker (Paris Opera). The choreography reveals childhood's fantasies as well as fears beneath the usually sugar-coated fairy tale. (47 42 57 50)

WEST GERMANY

Berlin (Deutsche Oper). Der Freischuetz, produced by Johannes Schaal, will have its premiere this week. The cast includes Stella Kleindienst.

Hamburg (Staatstheater). La Cenerentola has a strong cast with Judith Beckmann, Hildegard Hartwig, Werner Hollweg and Harald Stamm.

Cologne (Opera). Hansel und Gretel has Andrea Andomian and Teresa Ringholz in the main parts, Helen Kwon repeats her much praised Queen of the Night in the Magic Flute.

Frankfurt (Opera). Falstaff is steered to triumph by Luis Quilica, brilliant in the title role. C  d   Fan Tueta with a new cast led by Margaret Marshall.

Munich (Bayerische Staatsoper). La Forza del Destino is G  tz Friedrich's production brings Julia Varady, Judith Forst and Wolfgang Brendel together. Die Frau ohne Schatten stars Mechthild Gessendorf.

ITALY

Milan (Teatro alla Scala). Impressive but lugubrious production of Don Giovanni by Giorgio Strehler, performed in the semi-darkness of Ezio Frignani's tasteful sets. Riccardo Muti conducts a fine cast. (80 91 26)

Rome (Teatro dell'Opera). Faust directed by Luca Ronconi and conducted by Gianfranco Masini with scenery and costumes by Pierluigi Pizzi. Also, Alicia Alonso's Ballet Nacional de Cuba. (46 17 55)

Turin (Teatro Regio). Quartetto con Maschera Rossa. A new ballet by Jean-Luc Lequay, with scenery and costumes by Eugenio Guglielminetti, danced by the Regio Company, with five guest performers. (58 80 00)

Bologna (Teatro Comunale). Falstaff in co-production with the Teatro de la Monnaie in Brussels, conducted by Riccardo Chailly. (52 99 99)

NEW YORK

Metropolitan Opera (Opera House). Les Contes d'Hoffman, in Otto Schenk's production conducted by Charles Dutoit, features Gwendolyn Bradley and James Morris. Manuel Rosenthal conducts Die Fledermaus in Otto Schenk's production, with Barbara Daniels and David Rendall. Fabrizio Melano's new production of *Il Trovatore* is conducted by Richard Bonynge, with Joan Sutherland and Luciano Pavarotti. Franco Zeffirelli's production of *Tosca* is conducted by Christian Bada with Eike Marton and Italo Tajo. Lincoln Center (362 6000)

New York City Ballet (New York State Theatre). Two choreographers with their own companies, Alvin Nikolais and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.

WASHINGTON

Washington Opera (Eisenhower). The season continues with the little performed *L'Amico Fritz* by Mascagni in Repertory with Ruggione. Kennedy Center (254 3670)

Saleroom season ends

The salerooms seem to have shaken off the stock exchange crash fairly well to date. At the end of the autumn season Christie's had achieved a worldwide turnover of \$245m, 28 per cent up on a year ago. Since mid-October it had disposed of thirty-six works of art for over \$1m. Prospects for 1988 are bright, with more property consigned than at the start of 1987. Despite soaring Van Gogh's "Irises" for \$30m Sotheby's managed a

much smaller rise, less than 3 per cent higher in sterling terms, at \$240m. However, quoting in dollars Sotheby's can claim a 30 per cent rise to \$609.4m. Phillips reported year end figures yesterday. In 1987 its turnover rose 23 per cent to \$77.7m. In its annual poll of its specialist fine English furniture came top, as usual.

A.T.

Arts Council undecided over grants

The Arts Council has still not made up its mind how to distribute the \$5.75m in additional grant that it received from the Arts Minister, Mr Richard Luce, in order to create incentive funding schemes in the UK in 1988-89. The actual split of the money is not settled but \$3.5m is likely to go to the Enterprise Fund for large organisations and the Progress Fund for smaller organisations, with \$1.5m to subsidise touring by national companies, and the rest on overseas touring.

But it seems there will be no financial division between the Enterprise and Progress Funds and there might even be a third grouping, for the very tiny arts groups, in which aid will be \$10,000 or less. It is likely that successful applicants will get \$1 for every \$2 they raise themselves, up to a tentative ceiling

of \$250,000. But really nothing has been decided. The Arts Council is reluctant to give these resources to management consultants and it could as an example to applicants. The Progress Fund will concentrate on professional assistance to fledgling or experimental arts organisations while the Enterprise Fund will relate to proven artistic merit, plus evidence that the extra money will improve performance, and contribute to an increase in funding from the private sector.

The Arts Council will have \$120.7m to distribute in England as its basic grant in 1988-89 and there will be no across the board percentage rise. Arts groups can expect to receive varying grant increases, or none at all, plus any additional from the incentive funding scheme.

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Transition to democracy

A GOOD deal of agitated hand-wringing is under way among the opposition parties in South Korea today. By competing against each other instead of against the government party they have lost the election for which they have been campaigning ceaselessly for 16 years.

There have been charges of blatant ballot-rigging. It will be some time before the scale of interference becomes clear. However, it is doubtful whether ballot rigging could account for the 2m votes margin of Mr Roh Tae Woo's win for the ruling Democratic Justice Party. Equally clearly, if either Mr Kim Dae Jung or Mr Kim Young Sam, the two leading opposition candidates, had kept to their earlier pledge and pooled resources, one of them could have secured a very handsome majority over Mr Roh on yesterday's result.

The next few days will be watched anxiously not only by South Koreans but also by the numerous other nations attempting to make the tricky transition from authoritarian rule to pluralist democracy. The US, which has invested much in nudging the South Koreans back to the democratic fold, will be observing developments closely. All the political leaders have key roles to play. If they continue to focus on the principles underpinning democracy the outlook for political and social stability in South Korea looks good. The precondition will be common acceptance of whatever is ultimately deemed to be the fair result.

Delicate manoeuvre

Nothing could be more than for Mr Roh's party to be proved to have been foolish enough to have manipulated the result after all the country has gone through to rid itself of authoritarian rule. If this were to happen and the opposition leaders called strikes and demonstrations resulting in social upheaval, there is no doubt that the military would intervene again, negating all the progress that has been made.

If, on the other hand, the irregularities turn out to be marginal Mr Roh's victory should be accepted. His first priority will be to ensure the divorce of the army from the affairs of state. This will be his most delicate manoeuvre; he was associated

with the coup which brought President Chun Doo Hwan to power in 1980 and has been implicated in some of that regime's worst excesses. His conversion to a different style was late. It need be no less genuine for that. He has some impressive changes to his credit already, having overseen the drafting of a new constitution which is commendably bipartisan in its approach. As in the US, the president's paramount power will be heavily circumscribed by the powers of the national assembly.

Few people have sacrificed as much in the cause of South Korean democracy as the two main losers in this election. Only they, by applying their beliefs to the role of an opposition in a democracy, can now still their supporters into calm acceptance of the result if it is shown to be reasonable.

Political continuity

The transition to a democracy begins rather than ends with a free election. The next few years will be awkward as the fledgling institutions proceed through teething troubles and adolescence to maturity. A great strength will be the growing maturity of the economy and the united commitment of the people to maintaining and increasing their prosperity. All South Koreans surely know that one of the most glittering economic success stories of the last 20 years owes much more to the sweat of their brows than to any benefit derived from a tightly controlled repressive regime.

The move towards a less dirigiste system of economic planning was already under way before the surge towards democracy, so policy continuity looks likely. There are no grounds for supposing that democratic institutions will undermine economic progress on the contrary they will be more appropriate to an increasingly sophisticated economy.

Progress in this direction needs to be accompanied by the dismantling of South Korea's exceptionally restrictive trade barriers, which are the subject of increasing international irritation, particularly in Washington. The more secure, democracy looks in South Korea the stronger the international push will be to open the door to the country's markets.

aimed at their modification or elimination.

This process is one that would respect the desire of governments to regulate their service industries for reasons unconnected with trade but it has the disadvantage of rendering key concepts like national treatment and non-discrimination the starting-point for a negotiation is probably no more than a concession to realism. On non-discrimination, however, the EC's attitude is confusing. Its proposal appears to make discriminatory regulations just another basis for negotiation, but this goes with a difficult-to-understand caveat that negotiations should be on a non-discrimination basis.

Poorer deadlines

Treating non-discrimination as just a desirable end-point is understandable, since it is difficult to persuade countries to give equally liberal treatment to countries that protect themselves to differing extents. Nevertheless, the absence of a strong non-discrimination principle, smaller countries are unlikely to be prepared to participate at all in the negotiations.

For example, in the absence of such a principle the US might still be within its rights in pressing South Korea to open its insurance market to US companies. The EC's clout may ensure that its companies are granted similar concessions. But other countries, with less negotiating leverage, could well be left out in the cold.

Elsewhere, the EC points to a need for liberalisation of trade in services to be compatible with the development of regulations of poorer countries. This is bound to be controversial, since it will be thought by some to let developing countries off the liberalisation hook, just as happened with trade in goods under the GATT. An agreement that requires non-discriminatory treatment of countries accepting very different obligations has proved increasingly unworkable.

The framework agreement on services has to be more than a declaration of principle without procedures, on the lines of the US proposal, and more than procedures without principles, as is implicit in the low-keyed EC approach but the US and EC have made an interesting start and may even have the makings of one good proposal between them.

Plan for freer trade in services

THERE could scarcely be a greater contrast between the European Community proposals for liberalisation of trade in services, tabled last week for consideration in the Uruguay round of multilateral trade negotiations, and those launched earlier this autumn by the US.

The EC proposals are low-key and workmanlike, concentrating on the need to establish procedures through which barriers to international trade in services can be negotiated away. The US takes a more idealistic approach, calling on the international community to adopt from the outset certain key liberalising principles from which, though the practicalities are left largely unexplained, it assumes specific agreements for individual service sectors will follow.

Given the complexities involved in liberalising trade in services, the EC approach is likely to be more productive but the US might also be accused of harping on practical difficulties to ensure slow progress in practice.

The US proposal, to which the EC is replying, is widely regarded as over-ambitious. It calls on national governments to make a commitment to two controversial principles: the right of establishment and national treatment. In other words, signatories of the agreement would not only have to accommodate any foreign service industry that comes knocking at the door, regardless of normal constraints on investment flows and labour mobility, but would also have to treat foreign suppliers in the same way as domestic suppliers.

Central proposal

The EC is more modest. It is not seeking sweeping and immediate reform. Instead, the objective of the talks should be simply to promote expansion of trade in services and thereby economic growth.

The US concept of right of establishment is scarcely mentioned. Instead, the central proposal is an administrative one - the establishment of a "regulations committee" to which countries would notify perceived obstacles to market access for their own service suppliers as well as those regulations of their own that they judge "appropriate". The committee would then examine the notified regulations to determine whether they are in keeping with agreed criteria for market liberalisation. Regulations deemed "inappropriate" would be subject to negotiation

Yesterday's bid by Barker and Dobson for Dee Corporation highlights the battle for position between Britain's supermarkets

High noon on the high streets

THIS COULD BE one of the last big battles in Britain's food retailing industry. The bid by Barker & Dobson, a company which until recently had been on the ropes for longer than most people can remember, for the much bigger Dee Corporation is remarkable not just as a David and Goliath story, or as an extraordinary piece of financial engineering.

It also marks the latest - and the biggest - in a whole series of transactions in which the ownership of UK supermarket groups has changed and changed again. Dee Corporation itself has been put together within the last 10 years through a series of major takeovers and the paths of several of the key players in the coming struggle have crossed before. With the exception of J. Sainsbury, all the major food retailers have been bidding for their high street rivals in the recent past, to the point where any further consolidation could fall foul of the Monopolies Commission.

What seems to be happening is that an industry which grew for 20 years and more at the expense of independent retailers is now approaching maturity and the battle is on to build market share.

Since the UK population is static and people are spending less rather than more on food, there is little in the way of market growth for the companies to fight for. Selling customers steak instead of sausages is one way to increase margins, but for profits to carry on upwards another means of expansion is necessary.

With the independents filling an ever smaller share of the EVERY CORPORATE financier's heart must have fluttered a little at the sight of yesterday's \$2bn bid for Dee Corporation.

Cheeky takeovers by small companies for large, usually all-seeing, giants were widely viewed as a bull market phenomenon. Yesterday, however, it became clear that big ambitions have not been entirely crushed by the stockmarket's autumn nose-dive.

Barker & Dobson is certainly nothing if not bold. A deal of this type, with over \$1.5bn of syndicated bank debt, has not appeared on the UK bid scene since the offer for Elex by Allied-Lyons in 1985, the first major high-leveraged deal in the UK - the financing arrangements caused a Monopolies Commission reference, although the deal was subsequently cleared.

But the French telecommunications authority clearly is not a superstitious organisation. After more than a year of soul-searching and market studies, the Direction Generale des Telecommunications, as the state telecommunications agency is known, has opted for a name which has a most familiar Anglo-Saxon style.

In an effort to give itself a flashy new image, the DGT has decided to change its name to France Telecom.

But the French telecommunications people do not intend that France Telecom should turn out to be a Gallic version of British Telecom. "Perish the thought", you can almost hear them thinking.

For a start, there is no question of privatisation. Even the French government's much talked-about telecommunications deregulation bill has now been shelved indefinitely.

After being regarded as one of the worst telephone systems in Europe in the Sixties, the French network has been improved dramatically and is now one of the most efficient and sophisticated in the world.

The new name, and an associated \$2.5m advertising campaign, are intended to turn the spotlight on France Telecom's role as the country's national public telephone operator, offering not only plain old telephone services but a wide range of new services using television and space satellites.

The new name, which is far less of a mouthful than the old one, is also designed to put an end to the traditional confusion between post and telecommunications services in France.

Next dance

Now that he has his autobiography Still Dancing on the bookshelves Lord Lew Grade, aged 81, is planning to return to film production in a big way.

Grade, whose film-making ambitions, many might have thought, went down with *Raise the Titanic*, is talking about a new \$100m movie deal.

I do have plans to go back

nation's food basket, the multiples are coming up against each other in their fight for position - and they provide much tougher competition for each other.

According to estimates by Verdict Research, the retail market research firm, the top four food retailers - Tesco, Sainsbury, Dee and Argill (following its recent acquisition of Safeway from its US parent) - now have virtually 50 per cent of the market. Estimates by others are even higher.

While Dee is reckoned to have about 11.1 per cent of the grocery market by Verdict and 12 per cent by others, Barker & Dobson's grocery chain Budgen has only around 1 per cent nationally, with up to 4 per cent in its strongest areas.

Some analysts believe that market saturation - the moment when the multiples can no longer expand merely by opening new stores - may now only be three or four years away. As Mr Paul Smiddy of brokers Wood Mackenzie observes: "Everyone is increasing their opening programmes as fast as possible before the roundabout stops."

That is more likely to take the form of a gradual deceleration than a juddering halt. Stores will continue to be revamped and old ones replaced with new. But competition between the majors is likely to be much more intense.

This is one reason why supermarket groups are looking to diversify overseas. Examples include Dees purchase of Herman's Sporting Goods in the US in April 1986, and Sainsbury's creeping acquisition of Shaw's supermarket group, also in the US.

A similar story might have cropped up in September, had the property group Mountleigh gone ahead with its bid plans for the retail group Storehouse, and utilised the finance lined up by Shearson Lehman, another Wall Street firm. In the event, however, Storehouse's refusal to recommend any deal led Mountleigh to back out. Even so, Mountleigh was not contemplating such a deal in a climate of financial shock when markets are still far from stable.

The actual mechanics of the Barker & Dobson financing are known, has opted for a name which has a most familiar Anglo-Saxon style.

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Inky tricks

Claims of election fraud took an unusual turn in South Korea this week when voters went to the polling booth for the first democratic election in 16 years.

Apart from awkward charges about rigged boxes and extra ballot papers, opposition parties complained that some election officials were giving voters pens with special fading ink to mark their papers.

Non-drying ink was also spotted, they said. When the ballot paper was folded, the ink imprinted on a second choice, thus invalidating the ballot.

CBI signal

Those who follow the labyrinthine workings of the Confederation of British Industry are interpreting a signal flying from the Centre Point yard as evidence that policy is shifting radically under the new director-general John Banham.

Keith McDowall, aged 58, the deputy director general responsible for the CBI's lobbying and publicity operations for the last

The scope for expansion by acquisition on the home front is becoming much more limited. Although none of the chains have more than 20 per cent of the total market, most are strong in particular regions. In London, Sainsbury and Tesco have more than half the market between them. The Monopolies Commission has already shown considerable interest in a number of bids in the sector.

It is poetic justice that Dee, which has so often bid for others, is now under threat. Mr Alec Monk, its chairman and chief executive, was until recently one of the stars of Britain's food retailing scene. The inbred nature of the industry is such that all the players in this battle have come up against each other before.

In addition, the presence of Mr James Gulliver, retiring next year as chairman of Argill, has never been far away.

Dee's roots go back to the merger of Associated Food Holdings and Thomas Linford in 1974. Wheatstone, acquired in 1978, brought in the Carrefour hypermarkets. Mr Monk arrived from RTZ in 1981.

Only a few weeks later, Mr Gulliver bid \$50m for the company, an offer which lapsed after it was referred to the Monopolies Commission.

The next year, Linford in turn launched a bid for Fitch Lovell, which was also referred. Fitch agreed to sell its Key Markets supermarkets to Safeway, but Linford's bid was cleared and it finally bought Key Markets in 1983. The same year its name was changed to Dee.

Along the way, Dee has taken

A bid financed by banks

commit themselves on such a scale to such a small company? In part, the explanation derives from the increased willingness of banks, especially from the US, to commit capital in support of takeover transactions. In addition, it is clear that Barker & Dobson is expecting to raise money from asset sales if it succeeds with its offer.

In the same way, Elders would have broken up Allied-Lyons had its gone ahead with its bid, and thus reduced its high borrowings.

Barker's intention is to hang on to Dee's "middle ground" Gateway stores - leaving it free to dispose of the 76 supermarkets within Gateway, Herman's in the US, the Linford cash and carry business, the Medicare drugs

stores and the Spanish retail business.

According to Barker, no buyers have yet been lined up. Its only clue to the expected proceeds is an indication that the cash raised would roughly match the bank loans (excluding the working capital element).

Wood Mackenzie, for example, reckons that some \$1.05bn might be pulled in, with the UK supermarkets contributing anything between \$500m and \$700m. Quite how quickly the sale of Herman's could proceed in the current difficult climate is uncertain. Yesterday, though, Barker's Mr Fletcher was stressing sales would not be essential merely to service the debt and that his company did have some leeway thanks to the length of the loans.

Having secured \$2.3m of aid Doyle evidently felt that discretion was better than complaining. But he did offer some new definitions born out of the frustrations experienced in 11 months of negotiations with the Mersey-side Development Corporation and the Government.

A "project learning curve", he explained, was something to do with physical characteristics of secretaries. "Cementing the foundations" was burying the chief executive. And the "grants process" was a re-enactment of the Battle of Waterloo.

Phillip Currier, who is chairman of Everton football club, the Football League, and Liverpool Conservative Association, is to be the new chairman of the development corporation.

His appointment completes a sporting monopoly. The MDC's deputy chairman is John Smith, chairman of Liverpool FC and the Sports Council.

Dear departed

When part of the Co-op's Scottish funerals business goes under the hammer shortly (around \$5m for operators) the principal but most cheerful mourner will be Tim Seymour and David Lyons of Gilbert Elliot Corporate Finance.

This will be the third time in three years that the pair have been involved in handling this particular business.

It all began in 1985 when they persuaded the House of Fraser to act as White Knight in the bid

over International Stores and Lennons. "It bid for Booker McConnell - Budgen's owner prior to Barker & Dobson - only to spend yet more time with the Monopolies Commission. Dee then picked up various interests outside UK food retailing and finally acquired 'Fine Fare' from Associated British Foods in 1986.

It was this last bold move, on top of the purchase of Herman's two months earlier, that has now laid Dee open to a takeover bid. Fine Fare - once under the management of James Gulliver - had become decidedly tired. The scale of the task of integrating Fine Fare and Dee's Gateway chain was enormous by any standard, and one Mr Monk expected to take three years.

With only half of that time up, Dee's interim results, announced on December 8, showed a downturn in profits. Bid speculation began to mount. Mr Monk described it as "coda-wallop" and

"felt confident to fly to the US this week. Barker & Dobson's Mr John Fletcher, who had already been looking at Dee, struck."

Mr Fletcher, now 45, can claim longer experience in food retailing than Mr Monk. He worked under Mr Gulliver at Oriel Foods in 1975, and stayed on to become president and chief executive. When Mr Gulliver bought Oriel back in 1980, Mr Fletcher was invited to join Asda, the northern-based supermarket group. But after three years as managing director of the stores side, he left suddenly in 1984.

Yet Mr Fletcher's determination to get back on top of a major food retailing chain has since then led him to make a consortium bid both for Gulliver's, the convenience store chain, and ambitiously for Fine Fare itself.

Both attempts failed. Instead Mr Fletcher joined Barker & Dobson in 1985, then a loss-making confectionery manufacturer and

cash alternative which was widely taken up.

But to provide that cash, those companies had to sell large amounts of their shares - a trick which was much easier to pull off in a roaring bull market. So the real difference about yesterday's offer is that the hefty loan element dodges the problem of underwriting new shares, replacing any element of rights issue by straight debt funding. It was, after all, the inability to underwrite in the shaky market conditions which brought bid activity temporarily to a halt in late October.

Yesterday, no one was predicting that the Barker deal would mark an important new trend in bid financing. But it does seem that bank finance, as well as well as flush corporate coffers, may have a larger role to play in the post crash world.

Nikki Tait

Men and Matters

Liverpool sports

The announcement yesterday of leisure, sports and retail projects costing \$25m for the Liverpool docklands was interesting for what was not said.

There was silence from Raymond Doyle of Arena Associates about the bureaucratic quadrangle involved in getting an urban development grant for the international ice stadium which is to be built.

Having secured \$2.3m of aid Doyle evidently felt that discretion was better than complaining. But he did offer some new definitions born out of the frustrations experienced in 11 months of negotiations with the Mersey-side Development Corporation and the Government.

A "project learning curve", he explained, was something to do with physical characteristics of secretaries. "Cementing the foundations" was burying the chief executive. And the "grants process" was a re-enactment of the Battle of Waterloo.

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His appointment completes a sporting monopoly. The MDC's deputy chairman is John Smith, chairman of Liverpool FC and the Sports Council.

Men only

Katie Chapman, assistant buyer for a Manchester engineering company, was delighted when two gift-wrapped Christmas presents arrived addressed to the Assistant Buyer.

She was not so pleased when she opened them to find a girly calendar and a bottle of after-shave lotion.

Male chauvinists still rule in industry it seems.

Observer

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POLITICS TODAY

Time, chance and Mrs Thatcher

By Malcolm Rutherford

LORD CALLAGHAN of Cardiff called his political memoirs *Time and Chance*. His text was from Ecclesiastes: "The race is not to the swift, nor the battle to the strong... time and chance happeneth to them all."

The experience of writing *Politics Today* for the last 10 years or so does not entirely bear him out. One day perhaps Ecclesiastes will be shown to be right, but in the short to medium term it is an outside bet.

The beguiling question, it seems to me as I write my last article in this space, is whether the British Conservatives will become like the Liberal Democratic Party in Japan, which appears to rule for ever, or more like the Gaullists in France, who began to crumble after President de Gaulle had gone.

There is no way of answering it now, except to predict that in the not too distant future the Conservative Party will be in a state of internal crisis. The controversial domestic legislation - the poll tax and the Education Bill - will be through Parliament probably by next summer and the Government will be wondering what to do next. The Conservative Manifesto at the last general election essentially covered only a two-year period, and that was deliberate.

Above all, the party will be wondering about the future of Margaret Thatcher. The only British Prime Minister to give up the office voluntarily this century was Harold Wilson. All the others were overtaken either by illness or defeat. Will Mrs Thatcher decide to quit while the going is good, or attempt to defy the odds of time and chance by sticking out for another term?

The dilemma, not only for the Prime Minister but also for her party, is all the more difficult to resolve because there is still no obvious successor in sight. When I was thinking about this article at the beginning of the week, Lord Hailsham, the deputy Prime Minister and leader of the House of Lords, was intended to play a central part in it. The thesis, largely taken from him, was that he had agreed not to retire after the last general election because the Lords needed leadership - one of the House of Commons - one

generally respected by peers and non-peers alike, who could steer controversial legislation through an upper chamber that was in danger of becoming unruly. He would allow judicious amendments, but under his stewardship the end result would be just about all right on the night.

The other reason he chose to stay was that he had long been anxious to preside over the period when the party would seek its next leader. He wanted the succession to be smooth and the new leader to emerge almost by the old "customary processes of consultation", rather than by the system of election by the parliamentary party with which the Tories are now saddled.

Lord Whitelaw knows as much about the new system as anyone because, if he had stood against Mr. Edward Heath in the first ballot in 1975, he would almost

net-making. Lord Whitelaw has become the foremost exponent of the doctrine that a Government must take its most unpopular measures very early on in order to have time to live them down. He learnt that from his experience with Mr. Heath, who reversed his policies in mid-term and lost. Lord Whitelaw was also once Chief Whip - not a job for softies.

What I was going to write, before being sadly interrupted by his illness, was that Lord Whitelaw himself might be out by next autumn, either because of the strain of leading their tempestuous Lordships had told, or because Mrs Thatcher had found a suitable replacement for him, such as Sir Geoffrey Howe, the Foreign Secretary, or perhaps a mixture of both reasons.

Sir Geoffrey's letter to his constituents published on Sunday -

son moving one number along Downing Street either.

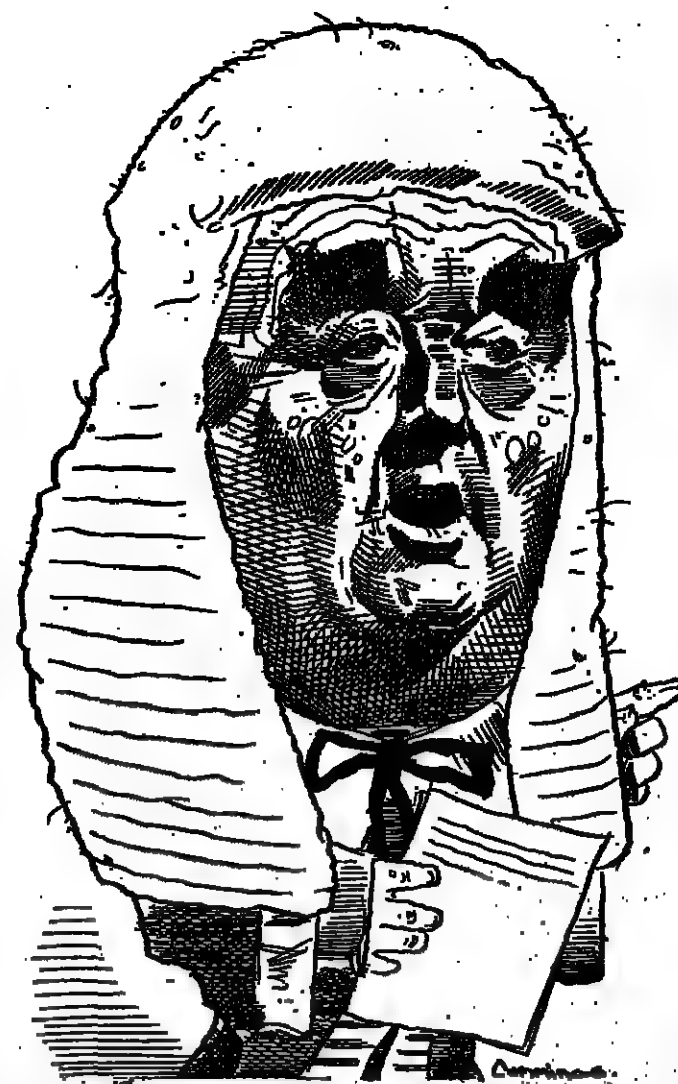
Lord Whitelaw's illness suggests that some of the problems inherent in the Conservative Party, and perhaps in any party that has been in power for so long, may surface sooner than one had thought. Somebody has to control the House of Lords. Somebody has to be in line for the succession. At present the pieces are not exactly falling into place.

Although the good of Mrs Thatcher's administrations seems to me to have far outweighed the bad, here are some parting criticisms. She has shown almost no interest in constitutional or even institutional reform. Not even Lord Whitelaw believes in the reform of the House of Lords. Yet there is a difference between the slogan picked up by the Prime Minister and some of her colleagues during the election campaign: "If it ain't broke, don't fix it", and letting the entire machine run into the ground.

I know that it is hard to get any kind of procedural change through the House of Commons, but one would like to believe that the Government is in favour of Parliament sitting at more civilised hours.

The televising of proceedings is now opposed more firmly than ever by the Prime Minister on the grounds that it would bring the House into disrepute. That is an attempt to sweep the mess under the floorboards and an insult to the House of Commons. It might reduce the "ya-boo" element at Westminster but, even if not, the electorate might like to see what it votes for.

Cross-party select committees of the House of Commons, monitoring the work of Government departments, were introduced with a flourish shortly after Mrs Thatcher became Prime Minister. They have since fallen prey to the Whips' Office - the most pernicious institution in Parliament. At the Tory Party Conference this year, it was actually announced which Whips were monitoring MPs' interests in particular subjects. Junior members of the Whips' Office went round the fringe meetings making a



Lombard

Leads, lags and short trousers

By John Plender

AS THE stock market crash recedes into the middle distance, Britain's industrialists appear much disaffected with a market system that inflicts damage on their share prices while order books and output remain thoroughly buoyant. A lot of nonsense got up by people in the City is how one industrialist put it to me last week; and there are numerous others who clearly think that the Square Mile is populated by overpaid manic depressives in short trousers.

Industrialists, so the argument goes, are virtuous folk who live in the real world. They have no intention of being blown off course by short term pressures from the wrong side of Ludgate Circus.

One can sympathise up to a point - not least because the extent of the share price collapse in the UK seemed excessive in the light of Britain's current economic performance. Yet the rhetoric carries a suspicious echo from the 1970s, when industrialists were not notably prescient in their judgment of the swings in the economic cycle.

Those who have been out of short trousers for quite some time may recall the famous occasion in 1972 when Mr. Edward Heath, then Prime Minister, savagely berated the leading lights of the Confederation of British Industry for their failure to invest. Then in 1973 they all cheered up in time for the mid-1970s crash. As growth that year hit its highest level since the war there was no shortage of industrialists folk declaring that the stock market slide was overdue.

The subsequent crash of 1974 was far more severe than anything we have seen this year, even if it progressed at a more stately pace. Does this mean that the capitalists of industry are getting it wrong again? Or have the stock market analysts invented the threat of recession to provide retrospective justification for this crash? The industrialists are at least right about one thing: the chief difference between then and now is that interest rates rocketed in 1974, whereas they have come down in response to the investment strike in the equity market in 1987, so countering the rather nebulous wealth effects that were so heavily trumpeted in October.

follows that the crash of '87 could not impose an instantaneous shock on the corporate sector. The impact of what has happened so far, if there is any impact, will come on the demand side.

That said, it is always dangerous to argue that the stock market is devoid of predictive content. It has certainly been a better barometer than the 365 economists who called for an urgent policy response just when the UK economy was on the turn in 1981 - a point which may explain why media pundits have greeted a similar exercise this week by 33 economists from 13 countries with conspicuous caution. Yet the economists are surely right that the world is labouring under huge and threatening trade imbalances. Before concluding that the stock market crash has no implication for their corporate plans, industrialists should ask themselves whether they can really find more optimistic answers than the stock market did in October to some very important questions. Given that the US economy is close to capacity, how is US domestic demand going to be curbed to permit a reduction in the trade deficit that is central to the markets' malaise?

Among the more obvious alternative solutions are higher interest rates, or tighter fiscal policy, or a squeeze on real incomes as a plunging dollar generates inflationary increases in import costs. None of these things bode well for European industry, unless you believe - against most of the economic arithmetic published to date - that West Germany and Japan will plug the gap left by the US. If we muddle through 1988 without a serious decline in OECD economic growth, there is surely recessionary trouble in store for 1989. And in the market's present mood, an absence of policy change before next autumn's presidential election might well spell earlier trouble.

It would, of course, be nice if the industrialists were ultimately proved right. But if they are, the young men and women in the City would be entitled to ask why so many of them, in their role as pension fund trustees, urged fund managers to give equities a wide berth these last two months.

'Crisis' parallels are doubtful

From Mr Tony W. Ching.

Sir, I doubt the parallels so frequently drawn in the FT (Anthony Harris, October 19, November 16; Samuel Brittan, October 29, November 20, December 3) between the genuine problems of the US today and the UK in 1976. The close look at that discreditable episode suggests merely that an ill-advised government "was stampeded into ridiculous postures and unnecessary measures". While press and City opinion were being guided by mob psychology then, economics, out in the real world 1976 was proving rather a good year for Britain.

GDP and productivity growth, numbers in employment, personal savings, share of world exports of goods and services, trade balance in manufactures, the international value of the pound - all were comparable with or much better than today. Real interest rates, levels of import penetration, government spending as a proportion of national income, average individual taxation (combined income tax, NI, VAT) and, of course, unemployment, were all lower.

Nor - despite the horrendous legacy of the oil shock - was the long term being neglected. The slice of GNP devoted to investment was higher than in any year of the 1950s; industrial training flourished, with apprenticeships almost two and a half times their present levels. North Sea oil - that unique gift to the 1980s - was coming along at a cracking pace. If public spending was a problem we were in good company: government outlay as a proportion of GNP rose faster in 14 other OECD countries in 1973-78.

Even the balance of payments deficit so much fussed over was improving dramatically. It had halved in 1976 and halved again in 1978, when it was exceeded in

Letters to the Editor

No effect on house price inflation

From Mr Adrian Jack.

Sir, Samuel Brittan (December 10) repeats the myth that the replacement of the rates by the poll tax will increase house prices. The logic usually applied to prove this proposition is that the householder has the money which he used to need to pay his rates released, so that in a market where supply is inelastic, property values will increase by the capitalised value of the saving on the rates.

The fallacy is that, providing the poll tax raises the same revenue as the domestic rate, the net effect on families' income available for housing is nil. Naturally, since the incidence of the poll tax is different from that of the rates, some types of housing will become relatively more expensive (in particular "upmarket" properties will have a relatively greater premium over mid-market houses because the rich will be the main gainers from the new regime), but the change will have no overall effect on house price inflation.

Of course it may well be that less money will be raised through the poll tax than through the domestic rate so that an inflationary kick is given to the house market, but that will be a political decision, not because of the nature of a poll tax.

Adrian Jack, 135 Queen Alexandra Mansions, Judd Street, WC1

Windfall gain could be clawed back

From Mr Jeremy Arnold.

Sir, The political weakness of the Poll Tax is that it discriminates so clearly in favour of the rich: at the expense of the poor, is there not an elegant solution which would involve:

1. Restricting mortgage interest relief to the standard rate of tax thereby clawing back a large part of the windfall gain which would otherwise accrue to the highly paid;
2. Using the proceeds to increase the central government share of educational expenditure (not unreasonable against a background of increasing central control over educational policy); and
3. Bringing down the per capita impact of the poll tax to a level as high as it would continue to act as a deterrent on high spending councils without being quite unbearably high for families on a low level of income?

Jeremy Arnold, The Elms, Cherrington, Shipston-on-Stour, Warwickshire

TUC prepared the document

From the General Secretary of the Trades Union Congress.

Sir, Contrary to Philip Bassett's report (December 10) the trade union organisation at Wapping, the document referred to was not produced by "employees in Wapping".

It was prepared in the TUC as a basis for discussion with those affiliated unions concerned. Its contents have not been made known to or discussed with any employee at News International.

Norman Willis, Congress House, Great Russell Street, WC1

Shareownership has some odd spinoffs

From Mr Lionel S. Goslin.

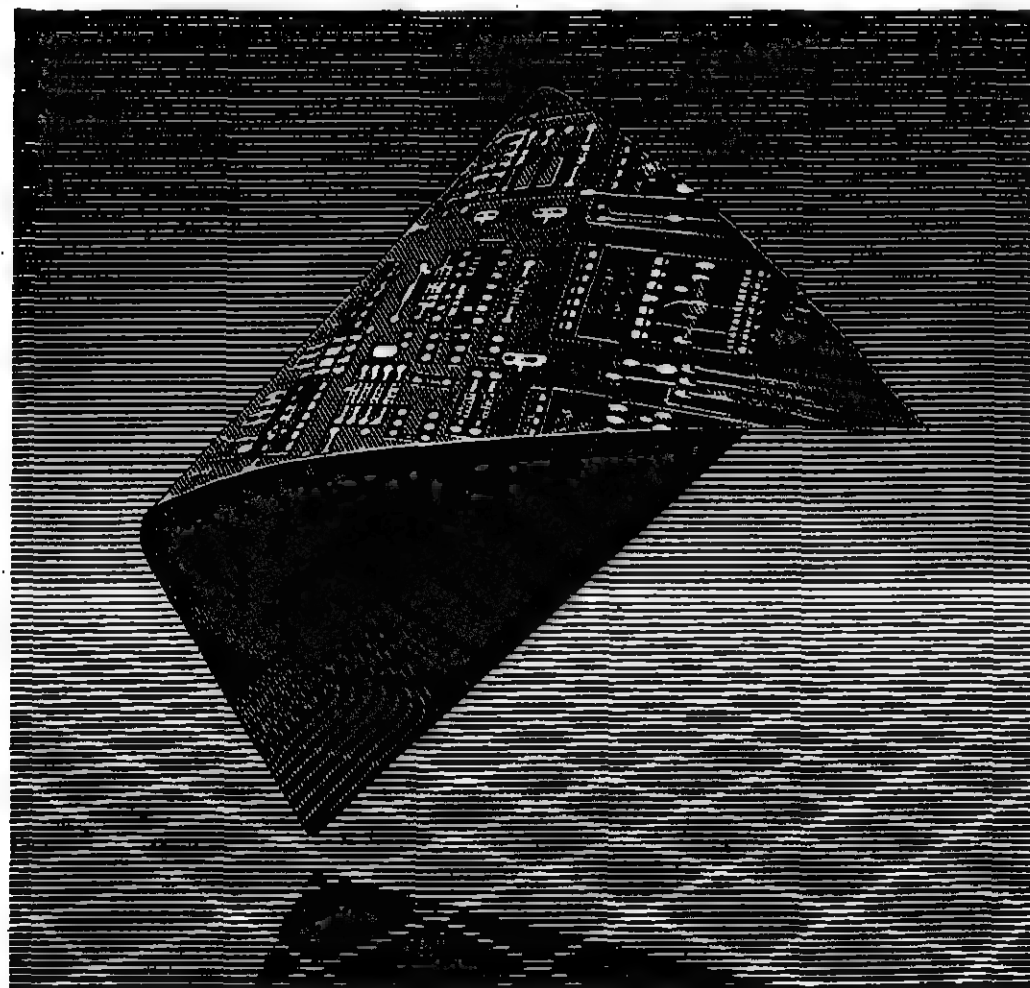
Sir, Since becoming the owner of a parcel of 400 shares in British Telecom my post has burgeoned. I have had letters from Norman Tebbit and Cilla Black, and one from the Salvation Army. Correspondence has come from West Germany, Holland, Malta, Gibraltar and faraway Florida. Now I have received an invitation to have my name in a prestigious publication.

There is more to wider shareownership than I ever dreamed.

Lionel Goslin, The Cottage, 2 Wyle Oliver Road, Weymouth, Dorset

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It is time world attention shifted from US budget deficit cuts

From Mr S.K. Rao.

Sir, Mr Daddie's letter (December 3) on the need to avoid beggar-thy-neighbour policies in the current situation is a timely reminder that the world's attention may be far too pre-occupied with securing a cut in the US budget deficit. While worries regarding the sustainability of the dollar and the consequent fear of an upward pressure on interest rates - may have been the proximate cause of the stock market crash, it does not follow that a cut in the US budget deficit at this stage would revive world economic growth. Professor Stephen Marglin (FT, November 9) is indeed right when he warns of the dangers of curing the American trade deficit through a recession in the US rather than an expression elsewhere. Professor

Maynard, who rebuts Samuel Brittan on the causes of the crash (Letters, November 24) is also aware of the dangers of relying on cuts in the US budget deficit as a remedy.

Imbalances in world trade can be got rid of by a massive world recession via exchange rate adjustments as the principal instrument, or, alternatively, through a fiscal expansion in the surplus industrial countries (Japan and West Germany) and, as Mr Daddie rightly emphasises, in the developing countries. The focus on interest rate cuts in West Germany and Japan is not enough; there is not sufficient basis to believe that interest rate cuts in these countries - important policy measures as they are - will revive demand significantly. What is needed is direct fiscal

action - a combination of tax cuts and expansion in public expenditure. The size of budget deficits is a misnomer for policy in this context: where private savings exceed private investment significantly, it would be necessary for public expenditure to exceed revenues. If the slack is to be taken up, this is the position with West Germany and Japan. If they try to pass on their problems of adjustment (arising from excess of private savings) to other countries by trying to bring down their budget deficits at the same time, that would constitute a beggar-thy-neighbour policy. It is time world attention shifted from US budget deficit cuts to expansionary fiscal policy in these countries as the chief policy problem facing us today.

The industrial countries - if

they are wise - would also help to revive global demand by improving net flows to developing countries. This they could do by agreeing to a significant increase in World Bank capital, a fresh SDR allocation, by agreeing to enhancement of resources available to IMF, and by debt relief measures. A half to one per cent fall in the GDP of the G-7 countries - which, on the most conservative basis in the present situation, can be expected - represents a loss of income of some \$500bn to \$1000bn. The cost to these countries of undertaking stimulatory measures via provision of additional flows to developing countries would be a fraction of that.

S.K. Rao, 7 Morefield Gardens, London NW2

Organised crime in Italy is bowed but not broken, reports John Wyles in Rome

Maxi-trial dents the Mafia armour

"THIS is not an historical moment. The Mafia was not on trial but some mafiosi. Second and third maxi-trials are now underway and there are many huge crimes still to be solved. Above all, the judgments here do not go beyond the Mafia of 1982."

Wisely, Leoluca Orlando, the 39-year-old mayor of Palermo, chose on Wednesday evening to pour cold water on the warm satisfaction with which many Italians in Sicily and on the mainland greeted the sentences handed down after 22 months of Italy's first maxi-trial.

No matter that the "pope," Michele Greco, who from the apex of the pyramid of the Sicilian Mafia ran the organisation's multi-billion dollar drug trade and coolly issued death sentences against the organisation's enemies, has been imprisoned for life. Nor that Ignazio Salvo, the immensely rich pillar of Sicilian society, considered untouchable because of the strength of his connections with the political world, faces seven years' imprisonment.

Despite the 19 life sentences and long prison terms levied in Palermo, the fact is that the Mafia is still in business, both illicit and licit, and that it still retains extraordinarily powerful roots in Sicily. The ease with which it can recruit from among the island's unemployed and disaffected derives both from cultural tradition and the universal awareness that Mafia connections guarantee wealth, upward mobility and considerable immunity from prosecution.

Moreover, the resigned passivity of those Sicilians who will have no truck with the Mafia is purchased by the knowledge that the money it brings into the island provides the only means of construction and oil the wheels of commerce. They also know



Michele Greco (above) in the Palermo courthouse before receiving a life jail term - he ran a multi-billion dollar drug trade. Antonino Chilla, nephew of two children and several cousins had all been murdered. Why, he asked, had he not been killed? "Don't worry about that," said Calo in an icy whisper.

that "the men of honour" control a considerable amount of the public money poured into Sicily as a response to the unemployment and social backwardness which nourishes and sustains their activities.

It is this longstanding connection between the Mafia and the state as represented by some of its politicians which explains popular scepticism in Italy about whether the organisation will ever be brought to heel. The Palermo trial has not touched the political Mafia and the conviction is widespread that this will be the last thread of corruption to be broken, if it ever is.

Nonetheless, the trial does represent a considerable success for the Italian justice system. It ends the myth of the impermeability and the invincibility of

the Mafia," wrote one commentator yesterday.

After the murder in September 1982 of General Carlo Alberto Dalla Chiesa, the Government's anti-Mafia high commissioner, the magistracy and the Government went to work with a determination which had hitherto been lacking.

However, there would have been more than 114 acquittals and fewer than 388 convictions on Wednesday evening if the state had not received the help of Mr Tommaso Buscetta, the crucial "pentito" whose evidence has secured convictions in the US where he is in heavily guarded seclusion, as well as Italy. He has now proved that the bonds of "omertà" - the Mafia vow of

silence - can be broken by mafia burning for revenge against the secret society.

In one chilling confrontation during the trial Buscetta screamed at one of the bosses, Pippo Calo, that his brother, brother-in-law, father-in-law, nephew, two children and several cousins had all been murdered. Why, he asked, had he not been killed? "Don't worry about that," said Calo in an icy whisper.

Buscetta still lives, thanks to his special protection. But the Mafia's first characteristic commentary on the trial came within a few hours of the sentencing on Wednesday night. Antonino Chilla, aged 38, acquitted of criminal association, was shot dead on his way home after a family celebration.

Moscow seeks to establish closer links with EC

By Carolyn Peck in Brussels

THE THAW in relations between the Soviet Union and the European Community has been significantly reinforced by a new request from Moscow to establish the "widest possible" co-operation with Brussels.

The proposal appears to go much further than the discussions held between the European Commission and Soviet negotiators last January, when the sole topic concerned diplomatic recognition of the EC - something the Soviet Union has refused to concede for 30 years.

Both sides have now agreed to hold talks early in the new year to examine the possible extent of co-operation, including the key question of whether it would include trade relations and the promotion of other economic links.

The new move was spelt out by Professor Ivan Ivanov, deputy chairman of the Soviet state commission for external economic relations, at a meeting with Mr Willy de Clercq, the EC Commissioner for external trade, in Brussels on Wednesday. The meeting was held at the Soviet request.

It coincided with separate, unofficial talks between Mr De Clercq and Mr Vlastislav Syrovch, secretary of Comecon, the organisation of East bloc state trading countries, to discuss the key issue holding up agreement on a joint EC-Comecon declaration on trade relations. The so-called Berlin clause, which effectively denies West Berlin as part of the EC.

At the meeting Mr Syrovch repeated the desire of the Comecon countries to reach agreement as soon as possible, and he was most anxious to discover just how adamant the EC was on including the clause, Commission officials said.

Mr Syrovch and Mr Ivanov were in Brussels on their way to a symposium on trade relations between the EC and Eastern Europe at the University of Ghent.

At both meetings it appeared to be the Soviet side which was most keen to press ahead with the process of normalising relations, and the EC which was showing most caution.

Mr De Clercq stressed the importance of the Community's inclusion of the "territorial clause" concerning Berlin in any EC-Comecon declaration. He pointed out that East Germany had itself accepted inclusion of the clause in an agreement on sheepskin trade signed only three weeks ago.

He has already stated that the Commission's negotiators are simply waiting for a proposal from Comecon on how to handle the issue - and Wednesday's talks do not appear to have produced any magic formula.

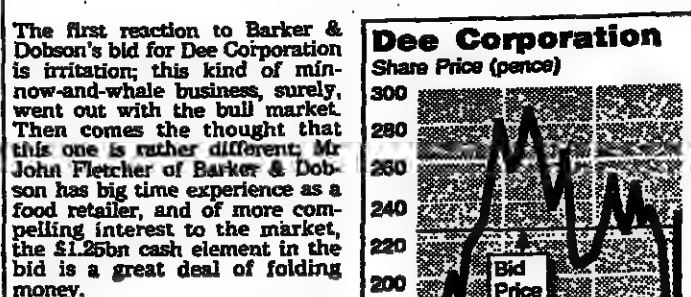
The EC has throughout insisted that a multilateral agreement with Comecon must be preceded by a series of bilateral deals with individual Comecon member states on trade issues and other economic questions for which Comecon has no legal authority.

A third round of negotiations for just such a deal with Czechoslovakia took place in Brussels this week, without any final agreement - although a Commission spokesman expressed confidence that terms would be settled after one more round.

Until the meeting with Mr Ivanov - who carries ministerial rank in the Soviet Union - Moscow itself did not appear interested in any such bilateral deal. Although Mr Ivanov remained vague on the content of the desired co-operation, this should be clarified by the exploratory meeting in 1988.

THE LEX COLUMN

Cash on the nail for the grocer



The first reaction to Barker & Dobson's bid for Dee Corporation is irritation; this kind of minnow-and-whale business, surely, went out with the bull market. Then comes the thought that this one is rather different. Mr John Fletcher of Barker & Dobson has big time experience as a food retailer, and of more compelling interest to the market, the £1.25bn cash element in the bid is a great deal of folding money.

With the Dee price closing yesterday at 220p, 5p above the bid price, the market is also venting its feelings over Dee's Mr Alec Monk, whose star has fallen sadly over the past two years. The view now seems to be that though Mr Monk is an adroit financial engineer, his lack of retailing experience is beginning to tell. While this may be a little unfair on the difficulties of the Gateway/Fine Fare merger, the simple question of whether Mr Monk or Mr Fletcher is the right man to be in charge of 13 per cent of the UK grocery market.

On the other hand, the bid is partly even - a break-up affair, it seems broadly that the 40 per cent or so of Dee which is to be kept is to be bought for paper, the rest being financed by a £1.25bn loan which will be repaid by selling the bits off over the next three years. The initial effect would be of a 150 per cent, and possibly negative net worth, depending on the treatment of goodwill. It would be surprising if Dee - plainly caught badly off balance yesterday - were not to make this a main prong of their attack, another presumably being why Asda dispensed with Mr Fletcher's services so summarily three years ago.

But unless the bear market has a lot further to go, some of the break-up values would look seductive. Getting back the £278m paid 18 months ago for Herman's in the US could be tricky, but the supermarkets in the UK might fetch over £500m. Meanwhile, Mr Fletcher would be left with 10 per cent of the grocery market, some of the stores having meanwhile gone through the bizarre conversion from Fine Fare to Gateway to Budget in a matter of months.

The market now has to figure out whether it can squeeze more from the bidder than a rather measly 14 times current year earnings. The difficulty is finding a counter-bidder, no big food retailer would be allowed to bid, and anyone else would probably find Gateway too much of a muddle at this stage. The best

hope of a higher price may lie with Mr Garry Weston of AB Foods, who will get good value for his 15 per cent holding or know the reason why.

County NatWest

The London chickens are finally coming home to roost after the stock market crash. National Westminster Bank's decision to inject £80m of new capital into County NatWest, its investment banking subsidiary, is the sort of tale which should set the alarm bells ringing in the boardrooms of less well capitalised financial conglomerates.

County NatWest is NatWest's answer to the US and Japanese investment banking giant, although it has been growing rapidly in a bull market it barely broke even in the first six months of this year. In its ambition to play in the big league, County NatWest appears to have thrown caution to the wind and after backing the UK's biggest ever rights issue it has ended up owning a substantial chunk of Blue Arrow, a company which was valued at just £3m when it came to the US three years ago. It is now nursing a £40m loss and this, together with a further £20m of losses post-crash, makes NatWest's investment look very much like an emergency capital injection. At least NatWest can afford it, although it will not have helped its image as Britain's best run clearing bank.

Grand Metropolitan

The timing of Segarm's claim on Martell has cast a faint shadow over Grand Metropolitan's full year figures, through pointing up the company's weakness in the important Far East market. But it is hardly enough to obscure this impressive confirmation of GrandMet's recovered poise. The trading position is for once consistently

strong, and earnings growth above the market average looks in the bag for the next two years at least. Heublein is living up to the high hopes invested in it and the timing of the divestments now looks shrewd. Above all, while strong central financial management has long been a hallmark of GrandMet - and is surely underlined by the mid-year interest rate swaps - it is now displaying the operational management skills that have long been promised.

Like Hanson the stock took a post-crash dive on fears over US earnings only to bounce back, and slightly outperform the market over two months, when wiser (or at least different) counsels prevailed. Part of that recovery is presumably due to the fact that the proportion of US profits, at 21 per cent of the after tax total, is not so big after all; however, the underlying exposure could still be more than it looks and will almost certainly rise. On the other hand the gearing at 77 per cent is less worrying than it looks given the interest cover and the unvalued brands in the balance sheet. So although a bid for Martell might have to be launched earlier than planned, thanks to Segarm, success would not put too much of a strain on the company's finances. Indeed the cognac company would cost not much more than one year's operational cash flow.

Takeover Panel

The City Takeover Code is one of those documents which may seem simple to the practitioners, but is scarcely comprehensible to the ordinary industrialist whose fortunes may depend on its interpretation. The latest change in the rules is a welcome step in the direction of making them more understandable. Until now, a company which had made a small investment in a competitor, say, and then decided some time later that it wanted to make a full bid, had to demonstrate to the Takeover Panel that an offer was not "reasonably in contemplation" at the time when it bought its previous stake. Otherwise the price of its last investment determined the minimum price it could offer. The uncertainty caused by this rule was only a theoretical problem in a bull market; but it has become more real following the stock-market crash. The decision to apply the rule for a fixed three-month period after the last share purchase is longer than is generally applied under the old rule, so the change should not be seen as a gift to the predators.

Brazil seeks \$11.5bn from bank creditors

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL is seeking \$11.5bn in new loans from its commercial bank creditors for the three years 1987 to 1989 in order to refinance debt interest payments falling due over the period.

The new loans would cover 60 per cent of the debt burden and would make up the shortfall in the country's balance of payments, according to Mr Carlos Eduardo de Freitas, the external director of the Central Bank.

Projections being presented by Brazilian negotiators in New York break down the total into \$3.4bn for this year and \$3.7bn for 1988 with a further \$4.4bn the following year.

They were revealed yesterday in a report from the US by the business newspaper, *Gazeta Mercantil*.

According to the report, the figure represents Brazil's opening negotiating demands at the rescheduling talks expected to continue well into the new year. Mr Freitas said that the proposals were negotiable.

They are based on assumptions of world average growth of 2.5 per cent next year and 3 per cent in 1988. Brazilian growth is estimated at 6 per cent of gross domestic product - a figure that many economists are likely to find highly ambitious given the

country's current high inflation and low investment performance.

The Brazilian projection also aims to reduce the public sector deficit, excluding that incurred by the state sector companies to 2 per cent next year and 1.7 per cent in 1988.

This year, efforts to cut back total public sector overspending, including that incurred by the state-owned oil company, collapsed under political pressures and a substantial increase in the salary bill.

Mr Fernando Bracher, Brazil's chief debt negotiator, yesterday criticised the slow pace of the talks with the 14-member com-

mittee that represents the country's commercial creditor banks.

He gave a warning that if the negotiations was not closed by the middle of January as was required in a preliminary rollover agreement last month, Brazil might be forced to resume the moratorium on interest payments it first imposed last February. "The banks know this," he said.

Brazil yesterday announced a \$1.04bn trade surplus for November and predicted a total surplus of just under \$11bn for the year - a substantial rise on the \$5.5bn originally projected.

Opposition rejects Roh's poll victory

BY MAGGIE FORD IN SEOUL

THE victory of Mr Roh Tae Woo in South Korea's first presidential election for 16 years was yesterday rejected by the two main opposition candidates as fraudulent.

Mr Kim Dae Jung and Mr Kim Young Sam, Seoul's two main opposition candidates, both scored fewer votes than expected in a race that was predicted to be very close.

An atmosphere of gloom pervaded the country yesterday in the wake of the result. Many voters blamed the two Kims for failing to agree that one should stand down, leaving a single opposition candidate to be sure of defeating the military-backed government party.

Mr Roh called on the opposition to accept the result and settle their differences to avoid disruption to the country's stability and next year's Olympic Games in Seoul.

Mr Kim Young Sam, who trailed behind Mr Roh's 38.2 per cent of the tally by 2m votes, said the result was a "second coup d'etat". Mr Roh helped the incumbent President Chun Doo Hwan to win power through a military coup in 1979.

Mr Kim Dae Jung said opposition parties, student and dissent groups would meet today to decide what to do about the alleged election fraud. He would wait to see the public's attitude before taking any action, but advocated non-violent protest.

Riot police were yesterday out

The EC is due today to declare an open trade war with South Korea by scrapping the preferential access its exporters are allowed in EC markets. The move is in retaliation for Seoul's refusal to give EC exporters the same legal protection against counterfeiting as their US competitors.

A meeting of the EC's 12 ambassadors for South Korea, under the general system of preferences would be withdrawn from January 1.

on the streets of Seoul, but students stayed away. In Mr Kim's home province of Cholla, where he scored between 80 and 94 per cent of the votes, about 2,000 students continued to riot in protest at Mr Roh's victory.

Both Kims suffered curious reverses in the election, especially in Seoul and in Mr Kim Young Sam's home area of Kyongsang province. Mr Kim only narrowly held Pusan, source of his strongest support, against Mr Roh.

In Seoul, where voting was expected to be close between the two Kims with Mr Roh trailing, Mr Kim Dae Jung won with 32.4 per cent and Mr Kim Young Sam 28.4 per cent.

Search for legitimacy goes on, Page 4; Editorial comment, Page 16

Jakes takes over

Continued from Page 1

over to the powerful Ministry of the Interior where he rose to deputy minister.

No doubt Mr Jakes's stint at the Soviet party school in Moscow during 1968 and 1969 served him well for the future while in the meantime it earned him promotion in the Interior Ministry.

By 1965, he was running the civil administration department which essentially co-ordinated co-operation between ministries, central authorities and national committees. That post gave Mr Jakes excellent contacts not only in Prague but also throughout the country.

As the country buzzed with excitement during the flowering of the Prague spring, Mr Jakes kept his distance from Mr Dubcek while keeping in close contact with the Soviet leadership. He fully endorsed the invasion by Soviet-led Warsaw Pact troops on the

night of August 20, 1968.

He also fully endorsed - in his capacity as chairman of the central control and auditing commission to be elected from March 1968 until 1977 - the purging of the Czechoslovak Communist Party. Under his supervision, almost 500,000 party members were expelled after 1970. When the question of rehabilitating some members was raised in 1976, Mr Jakes insisted that they publicly recant as a precondition for re-admission. A year later, he was elected a candidate member of the presidium.

Such a record will not win independent-minded Czechs and Slovaks to Mr Jakes. But, being a pragmatist and recognising the changes taking place in the Soviet Union, Mr Jakes now has the go-ahead for attempting to pull the economy out of its deep lethargy, something which Mr Gorbachev has insisted upon.

Western technology 'lost'

Continued from Page 1

time that the Russians became interested in it and the US sought to block them.

In Britain, however, the sale of machinery and technology governing the process was not illegal. Nor was it banned by the Co-ordinating Committee for Multilateral Export Controls (Cocom).

The UK government, through the Department of Trade and Industry, approved the sale in 1983 and a contract between the Soviet Union and Consarc was signed.

What happened after that is a matter of fierce dispute. Pentagon officials acknowledge that US intelligence appears to have failed, either by failing to spot the sale or, more likely, failing to share its knowledge with other US government agencies.

The result was a vital eight-month delay in which a substantial portion of material was shipped to the Soviet plant, just outside Moscow.

However, one senior Defence department official insists that the critical goods in the production of carbon-carbon -

heating elements for isotopic presses - were never delivered.

Indeed, thanks to the prompt intervention of Mrs Margaret Thatcher, the UK Prime Minister, in early 1985, customs officials seized a vital Consarc shipment. It was a triumph of Anglo-American co-operation, the official said.

A British official, though less effusive, agreed that co-operation had been effective and had led to a change in Cocom rules. "The Soviet plant is not operational," he added.

Congressional officials and some of the Pentagon's bureaucratic rivals in the Reagan administration disagree vehemently. They claim the Soviet Union was able to purchase almost all the critical technology.

One official familiar with the sale said it was a disaster on a par with the sale by Toshiba, the Japanese electronics company, and Kongberg of Norway of silent submarine propeller technology, which was disclosed this year.

The committee's statement last week was unequivocal: "Despite a long-standing appreciation of its strategic impor-

tance and knowledge of the desire of the Eastern bloc to obtain carbon-carbon capability, the sale of equipment itself was not controlled by the United States, by our allies, or by the so-called Cocom organisation."

"While US agencies argued among themselves about how to investigate and respond to critical information, the technology was being sold to the Soviet Union and equipment was being shipped continuously," Mr John Dingell, the Michigan Democrat and congressional sub-committee chairman, and Mr Thomas Biley, a Virginia Republican, said in a joint statement.

The final twist concerns the sale itself. The Soviet Union stipulated that it would not pay one rouble for the plant unless all the material was delivered. Consarc officials took out export insurance for 90 per cent of the \$11m deal through Britain's Export Credit Guarantees Department. When the last shipments were seized in early 1985, the firm was able to claim a handsome insurance settlement and the Soviet Union a free deal.

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World Weather

Area	Temp	Wind	Cloud	Precip	Area	Temp	Wind	Cloud	Precip
Algeria	11	11	11	11	London	11	11	11	11
Amman	11	11	11	11	Madrid	11	11	11	11
Antwerp	11	11	11	11	Moscow	11	11	11	11
Athens	11	11	11	11	Munich	11	11	11	11
Bahia	11	11	11	11	New York	11	11	11	11
Bangkok	11	11	11	11	Osaka	11	11	11	11
Bombay	11	11	11	11	Paris	11	11	11	11
Buenos Aires	11	11	11	11	Rome	11	11	11	11
Calcutta	11	11	11	11	Seoul	11	11	11	11
Cairo	11	11	11	11	Shanghai	11	11	11	11
Canton	11	11	11	11	Singapore	11	11	11	11
Cebu	11	11	11	11	Sofia	11	11	11	11
Colon	11	11	11	11	Tokyo	11	11	11	11
Dacca	11	11	11	11	Vienna	11	11	11	11
Daham	11	11	11	11	Zurich	11	11	11	11

SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Friday December 18 1987

HOPE
SPAIN'S SHERRY
GONZALEZ BYASS

COUNTY NATWEST SUSTAINS HEAVY LOSSES OVER MARKET CRASH

UK investment bank loses £69m

BY DAVID WALLER IN LONDON

COUNTY NATWEST, the investment banking arm of National Westminster Bank - one of the four main UK clearing banks - yesterday said it had lost £69m (£124m) in October's stock market crash. A 9.5 per cent stake in the shares of a single company, the Blue Arrow recruitment agency, accounted for £49m of this.

The losses are the largest reported so far by a British investment bank. BZW, the Barclays Bank subsidiary, is believed to have lost around \$60m in the crash.

NatWest has put an extra \$80m into County to satisfy the Bank of England about the bank's capital resources. Mr

Charles Villiers, County chairman, said yesterday.

Of this, £11m is to cover further indirect losses resulting from the crash, and to provide capital backing for the expansion of the bank's business. Indirect losses are believed to include those on market making because of lower turnover after the crash.

The Blue Arrow losses result from County's involvement in helping the company to finance its takeover of Manpower, a US recruitment firm, this autumn, and from a large position (or risk) taken by the bank's market makers.

County was left with 4.9 per cent of Blue Arrow's shares in

the capital-raising exercise when share prices fell in October. The shares now stand at 93p, compared with the 166p County paid for them.

The bank's market makers bought a further 4.5 per cent of Blue Arrow's shares at around the same price, taking its total holding to 9.5 per cent.

The market makers' position was "properly authorised" and within the normal trading limits set by County, said Mr Villiers.

Mr Villiers said that County regarded the Blue Arrow stake as a good investment, and that it had not set a target price at which it would sell. "We have said to Blue Arrow that we have no plans to sell the shares."

The other \$20m losses have arisen from a number of areas, including underwriting, market making and clients failing to pay debts.

Around \$5m is believed to result from losses on traded options, where clients ran up debts they were unable to repay. One client accumulated debts of more than \$1m during the stock market crash. A number of executives have since been sacked over the incident.

Leaving aside the Blue Arrow losses, County's market making business, which is believed to have made profits of £13m to £14m in the first half of the year, is reported to be still in profit for the year as a whole. *Lex, Page 18.*

Finnish groups buy Skandia stake

BY OLLI VIRTANEN IN HELSINKI AND SARA WEBB IN STOCKHOLM

KANSALLIS-OSAKE-Pankki, Finland's leading bank, and Pohjola, the country's largest insurance company, will acquire a 16.8 per cent holding in Skandia, Sweden's biggest insurance group, for SKr1.6bn (\$260m).

The shares will be sold by Investment AB Beijer, the Swedish financial, trading and industrial company dominated by Mr Anders Wall, the financier. The total value of Skandia's 9.5m shares was SKr1.4bn on the Stockholm stock exchange yesterday.

The deal will be executed in two parts, with 6m shares changing hands in May 1988 and the

rest at the beginning of 1989. Kansallis and Pohjola do not say how they plan to control or split the holding.

Kansallis and Pohjola will be the largest shareholders in Skandia with the next biggest block amounting to 8.3 per cent of the share capital.

According to Mr Matti Korhonen, senior vice-president of Kansallis, the deal will give the Finnish institutions an excellent vantage point to the Swedish economy. At least one of the two Finnish companies will have a seat on the board of Skandia, the group with a wide range of holdings in Swedish companies. KOP

has made several moves to penetrate deeper in the other Nordic countries, including opening a subsidiary in Stockholm last year. Pohjola expects to engage in various insurance services in co-operation with its Swedish counterpart Beijer said it had been planning to sell its stake in Skandia as part of its move away from being a pure investment company. The SKr1.6bn would be used to make further acquisitions, Mr Wall said.

Beijer was merged with Argentinus, another Anders Wall company, earlier this year and is being reorganised as an industrial manufacturing and trading/

distribution concern so that it can qualify as an operating company, as opposed to a pure investment company, because this would give it certain tax advantages.

As part of the merger deal, Argentinus had planned to make a new share issue late in 1987, but this was scrapped by the bourse crash. "Now that we have SKr1.6bn, it is not necessary to have the share issue," said Mr Wall.

He said that the Argentinus/Beijer group had sold off a considerable part of its share portfolio recently.

Texas Instruments to sell 60% of oil unit

BY LOUISE KIRKOE IN SAN FRANCISCO

TEXAS INSTRUMENTS, the US electronics and semiconductor manufacturer, has signed a letter of intent to sell 60 per cent of its geophysical oil services business to Halliburton, a leading Texas oil services company.

The move follows repeated cuts at the TI subsidiary, Geophysical Services (GSI) over the past two years. According to the companies, the agreement also

provides for the possible sale of TI's remaining 40 per cent holding within a few years at the option of either company.

Halliburton will make an initial cash payment to TI of about \$60m, with a potential additional cash payment in 1991. Both the amount of the additional payment for the initial purchase and the option price on possible acquisition of TI's remaining

interest in GSI will depend mainly on its future financial performance, the companies said.

Both companies emphasised that the sections are subject to a definitive agreement which they aim to complete during the first quarter of 1988.

For TI, the anticipated sale represents the shedding of the business around which the com-

pany was originally formed. TI has long since diversified, however, becoming the largest semiconductor manufacturer in the US and a major military contractor.

For Halliburton, the investment will strengthen its technology-driven oilfield services business segment, the company said. GSI is based in Dallas and employs about 2,900.

Husky Oil may buy Texaco Canada

By James Buchan in New York

HUSKY OIL, the Alberta-based petroleum group, is in talks to buy the Canadian subsidiary of Texaco, the crippled US oil giant which may need to sell assets to finance a settlement of its dispute with Pennzoil.

Husky, which is privately held, said it had held talks in New York with Texaco and with the committees of creditors and stockholders represented at the company's bankruptcy proceedings.

The creditors are trying to force the group to sell Texaco Canada to finance a \$3.01bn cash payment which is Pennzoil's price for a settlement of its four-year dispute.

Texaco took refuge in bankruptcy to escape enforcement of a \$10.3bn award of damages to Pennzoil, which has accused Texaco of interfering with its contract to buy part of Getty Oil in early 1984.

Other Canadian companies, which are alone permitted to buy the company under Canadian law, are believed to have expressed interest in Texaco Canada.

The company has about 400m barrels in proven reserves of oil and gas liquids, 25m cu ft of natural gas and a substantial marketing network.

Texaco's 78 per cent stake in the company is believed to be worth about \$2bn.

Husky, which enjoys annual revenues of about C\$700m (US\$538m), said it had not decided whether to make a formal offer.

Texaco is not believed to be keen to sell.

Officials of Texaco and Pennzoil, and representatives of the two committees, were yesterday cloistered in talks in Manhattan in an attempt to reach agreement over a settlement plan to be filed with the bankruptcy court.

Talks have become bogged down on a list of demands by the committees to limit Texaco management's freedom of action.

Anatole Kaletsky in New York reports on a surprise resignation

Kaufman to quit Salomon

DR HENRY KAUFMAN, the highly-rated chief economist and head of research at Salomon Brothers, is to leave the leading Wall Street firm.

The unexpected announcement seems likely to add to the doubts about Salomon's strategic direction after a long series of financial and managerial setbacks which have been eating away at the firm's prestige.

Salomon said Dr Kaufman would be leaving in the first quarter of next year to set up his own economic consultancy.

No reason was given for his departure, which Mr Robert Salomon, one of the firm's managing directors, described as "a purely personal decision," not connected in any way with the extensive reorganisation and staff cuts which Salomon announced two months ago.

However, Dr Kaufman is known to have had differences with some other senior members of Salomon's management, mainly over his outspoken anxieties about the inherent risks in various financial innovations, including junk bonds, novel hedging instruments and merchant banking strategies in highly-le-



Henry Kaufman: Setting up own economic consultancy

His reputation reached its zenith in 1980 when he earned the sobriquet of Dr Doom by predicting with remarkable accuracy the bond market collapse and inflationary spiral which pushed US interest rates up to a peak of 20 per cent and precipitated the worst recession since the 1930s.

For a time, his pronouncements on interest rates were important market-moving events in their own right, and Salomon's advance access to his views was regarded as one of the firm's major trading advantages.

Although his forecasting record has been much poorer since the beginning of the bull market in 1982, his views have continued to command a wide following.

Dr Kaufman said he was resigning from Salomon on amicable terms and was leaving behind him the strongest research department the firm has ever had.

The only policy differences between himself and the firm's management had already been well aired a year ago when he resigned as vice-chairman.

Marsh & McLennan to reorganise worldwide

BY NICK BUNKER IN LONDON

MARSH & MCLENNAN Companies, the world's biggest insurance broker, is to reshuffle its broking operations worldwide in what Mr Frank Tesco, group chairman, calls a plan to create a "truly global" broking business.

One aim is to make M&M better suited for servicing transnational corporate clients in the European Community in the run-up to 1992, the EC's deadline for creating a free market in services including insurance.

"One of the things in our minds is that barriers are going down in Europe," Mr Tesco said in London yesterday.

Insurance services will be divided between two main M&M direct broking companies. A third "joint venture" company, Marsh & McLennan Worldwide

Services, will look after global marketing and provide specialised support and facilities.

Guy Carpenter, M&M's reinsurance broking arm, will not be affected.

All M&M's direct insurance broking outside North America will come under Marsh & McLennan Bowring, a new London-based company, including C.T. Bowring, the group's London subsidiary.

US and Canadian direct broking will come under New York-based Marsh & McLennan, to be chaired by Mr Bob Clements, one of the architects of ACB and XL, the offshore insurance facilities created by M&M during the 1984-86 US liability insurance crisis to provide coverage for major industrial corporations.

Toronto broker to receive contingency aid

By Robert Gibbons in Montreal

THE CANADIAN securities industry's National Contingency Fund has taken the unusual step of lending C\$10m (US\$7.6m) to Oslar, an old-established Toronto brokerage, to restore its capital position.

Oslar is believed to have incurred losses of C\$25m - three times its capital - since October 19.

Normally the contingency fund has been used to pay off public clients when a broker goes bankrupt. The Toronto Stock Exchange will supervise Oslar's business.

Industry sources said Oslar's principals had tried to find a buyer for the firm since last summer.

NEW ISSUE

All these securities having been sold, this announcement appears as a matter of record only. December, 1987



The Kingdom of Belgium

¥55,000,000,000

5 3/8 per cent. Bonds due 1992

ISSUE PRICE: 102 1/2 PER CENT.

The Nikko Securities Co., (Europe) Ltd.

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Norinchukin International LimitedMorgan Guaranty Ltd
S.G. Warburg Securities

Bank of Tokyo Capital Markets Group
Banque Paribas Belgique S.A.
Crédit Commercial de France
Daiwa Europe Limited
Generale Bank
Kidder, Peabody International Limited
LTCB International Limited
Mitsubishi Finance International Limited
Mitsui Trust International Limited
Nomura International Limited
Salomon Brothers International Limited
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December 1987

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INTERNATIONAL COMPANIES & FINANCE

Nedlloyd expects 'considerable loss'

BY LAURA RAUIN IN AMSTERDAM

NEDLLOYD, the Dutch transportation group, disclosed yesterday that it expects a "considerable loss" for 1987 due to a large write-down on ships and off-shore drilling equipment.

Mr Peter Knottenbelt, secretary to the executive board, refused to be drawn on the exact size of the write-down or foreseen losses, saying that more details would be announced on January 7.

Nedlloyd, a diversified transport group involved in ocean shipping, overland transport, airlines and offshore oil and gas exploration, also said yesterday that it would seek fresh capital through a private share placing of up to Fl 200m (\$100m).

For the first half of 1987, the group incurred a loss of Fl 65m following the drop in the dollar and the plunge in the shipping and energy industries. Net earnings in 1986 totalled Fl 72m.

MAN forecasts further improvement in income

BY OUR FRANKFURT STAFF

MAN, West Germany's largest engineering group, expected a further improvement in profits this financial year, said Mr Klaus Goette, the chairman.

But he added that earnings were still too small. The company had already announced higher net income for the year to the end of June of DM1.85m (\$84m) against DM122m. Before financial provisions and taxes, profits were DM680m against DM500m.

Mr Goette said new orders had risen by 7 per cent to DM5.3bn in the five months to the end of November, a 2 per cent drop at home compared with a 19 per cent advance abroad. Turnover was 8 per cent lower, after an 11 per cent decline to DM3.4bn in the first four months.

In recent years, MAN has undergone extensive restructuring. It has moved its headquar-

ters from Oberhausen in the Ruhr to Munich in the south and merged with the company that used to be its parent, Gutehoffnungshütte (GHH).

Mr Goette said his restrained optimism for 1987-88 was based on the strong state of the order-inflow across the group. The stated order inflow does not include the near DM1bn contract placed by News International, headed by Mr Rupert Murdoch, with the MAN-Roland print machine subsidiary.

Mr Goette said this order showed how German manufacturers could overcome the export disadvantage of a strong currency by offering advanced technology. While MAN had not felt any impact from the recent turbulence on world financial markets, he added that this could not be ruled out later.

VW sees maintained earnings for 1987

By Hely Sheehy in Frankfurt

VOLKSWAGEN, THE West German motor group, says profits for 1987 at both group and parent company level will be much the same as the DM2.1bn (\$1.3m) the group earned before tax last year.

Group turnover this year would be up about 1 per cent to more than DM65bn, while parent company sales were likely to increase 5 per cent to more than DM45bn.

VW attributed the increase largely to success in Europe, where VW, Audi and Seat have a 15 per cent market share, which had more than made up for lower turnover in North and South America.

Revealing that it had sold almost 200,000 fewer vehicles in North, central and South America this year, VW attributed the decline largely to the economic crisis in Latin America.

However, this year's 6 per cent increase in sales in Europe, where VW is the market leader for the third year running, and in certain other key markets, meant the total sales would only just fall short of last year's level of 2.76m units. Despite greater uncertainties than this time last year, VW said it was "confident" about the outlook for 1988.

Porsche sales falter as price competition mounts

THAT SLEEK sports car having past you on the motorway may look like a Porsche, but the chances are these days that it comes from Japan.

On a closer look, there can be no doubt. More and more Japanese enthusiasts are prepared these days to forgo the exclusivity of the Porsche name for a cheaper car, with the same or more power and a greater range of features.

This is the situation now facing Mr Heinz Brantzi, the soft-spoken finance man, who has just stepped into the chairman's slot vacated by the more extrovert, globe-trotting Mr Peter Schutz. Prompting the latter's departure this week were the production cuts and short-time working forced on the Stuttgart company by the impact of the Wall Street collapse in October.

Already hit by the falling dollar, Porsche, controlled by the Porsche and Piech families, found the aftermath of Black Monday hard to bear. Sales plummeted in the US - in the first 11 months of 1987, they were 17 per cent lower at 22,350 cars - and the outlook is bleak, at least in the short-term.

Thus the growing competition from the Far East has come at a time when Porsche is particularly vulnerable, and from companies with far greater financial and marketing resources than the German concern. "The Japanese are eating into Porsche's market on both sides of the Atlantic," said Mr Stephen Reil-

man, European motors analyst with London stockbroker Phillips and Drew.

Porsche still has plenty of financial strength derived from the time when the US currency was riding high, and sales to the US, which account for about 60 per cent of turnover, represented high margin business. It has no borrowings and nearly DM400m in cash. In its financial year ended July 1986 net profits reached a peak of DM120m.

Andrew Fisher on the management upheaval at the West German fast car group

(£75m), three times the level of 1981-82. The result for 1986-87 will not be known until late next month, but analysts expect less than DM60m after DM75m in 1985-86.

Having cut output, Porsche will have to see how long it takes before its models become scarce enough to regain their cachet. Not everyone wants to buy Japanese, whether the model is a Mazda look-alike, a Toyota or a Nissan.

Even so, at a time when financial caution has smothered much of the desire to spend, the Japanese have a marked price edge.



U.S.\$25,000,000.00
UNITED MIZRAHI INTERNATIONAL INVESTMENTS NV

Guaranteed Floating Rate Notes 1988

For the six months
21 December 87 to 21 June 1988
The Notes will carry an
interest rate of 8 1/2% per annum
Coupon Value U.S.\$422.55
Listed on The Stock Exchange, London

THE REPUBLIC OF TRINIDAD AND TOBAGO

U.S. \$50,000,000 Floating Rate Notes due 1992

Notice is hereby given that the Rate of Interest has been fixed at 9 1/2% p.a. and that the interest payable on the relevant interest Payment Date, June 20, 1988, against Coupon No. 5 will be U.S. \$488.19.

December 18, 1987, London
By: Citibank, N.A. (CSI Dept.), Agent Bank CITIBANK

De Benedetti lifts stake in publishing concern

BY DAVID LANE IN MILAN

SABAUDIA, the Italian financial holding company headed by Mr Carlo De Benedetti, has increased its stake in Mondadori, the Milan publishing house, raising its shareholding from 18.9 to 24.9 per cent.

Mr De Benedetti's company has become the second largest shareholder in AME Finanziaria, which has a controlling interest of 50.3 per cent in Mondadori. In addition, Mr De Benedetti has increased his direct holding in Mondadori from 17.5 to 20 per cent by purchases on the Milan stock market.

Through direct and indirect

stakes Mr De Benedetti now holds about 32 per cent of Mondadori shares and is the largest shareholder in the publishing company.

It has been reported that Mr De Benedetti has taken advantage of a dispute between family shareholders at Mondadori. His move is part of a wider battle for control over the Italian publishing sector. Mondadori has a 80 per cent stake in La Repubblica, generally recognised as Italy's leading daily newspaper.

Mondadori group sales are expected to reach L1,300bn this year.

U.S. \$125,000,000

MCORP
A Momentum Company

Floating Rate Subordinated
Capital Notes Due 1997

Interest Period: 18th November 1987
18th May 1988

Interest Amount per
U.S. \$50,000 Note due
18th May 1988 U.S. \$2,086.77

Credit Suisse First Boston Limited
Agent Bank

U.S. \$150,000,000

MARINE MIDLAND BANKS, INC.

Floating Rate
Subordinated Notes Due 2009

Interest Rate: 8 1/2% per annum

Interest Period: 18th December 1987
18th March 1988

Interest Amount due
per U.S. \$10,000 Note U.S. \$ 210.12
per U.S. \$50,000 Note U.S. \$1,050.61

Credit Suisse First Boston Limited
Agent Bank

THE MINISTRY OF
FINANCE
OF THE KINGDOM OF
THAILAND
US\$300,000,000
Floating Rate Notes due
2005

Notice is hereby given that for the interest period 18th December 1987 to 20th June 1988 the interest rate has been fixed at 8 1/2%. Interest payable on 20th June 1988 will amount to: US\$423.99 per US\$10,000 Note and US\$2,119.95 per US\$50,000 Note.

Agent Bank:
Morgan Guaranty Trust
Company of New York
London

COMALCO FINANCE LIMITED

US\$180,000,000

Guaranteed Floating
Rate Notes due 1993

Notice is hereby given that for the interest period 18th December 1987 to 18th March 1988 the interest rate has been fixed at 8 1/2%. Interest payable on 18th March 1988 will amount to US\$205.38 per US\$10,000 Note.

Agent Bank:
Morgan Guaranty Trust
Company of New York
London

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Issue of

£150,000,000

9 1/2% per cent. Bonds Due 2007

Issue Price 96 per cent.

As a Further Issue of the

£200,000,000

9 1/2% per cent. Bonds Due 2007

Banking Brokers & Co. Limited

Agents: Bank of Montreal, BNP, Citibank, Deutsche Bank, HSBC, Indus Bank, J.P. Morgan, KfW, London & Lancashire, Midland, Paribas, Royal Bank of Canada, San Paolo, Societe Generale, Swiss Bank Corp., Union Bank, WestLB, etc.

the Leeds PERMANENT BUILDING SOCIETY
(Incorporated in England under the Building Societies Act 1962)

Issue of

£100,000,000

Floating Rate Notes Due 1994

Issue Price 100 per cent.

Banking Brokers & Co. Limited

Agents: Bank of Montreal, BNP, Citibank, Deutsche Bank, HSBC, Indus Bank, J.P. Morgan, KfW, London & Lancashire, Midland, Paribas, Royal Bank of Canada, San Paolo, Societe Generale, Swiss Bank Corp., Union Bank, WestLB, etc.

SVENSKA FINANS (UK) LIMITED

(A subsidiary of Svenska Finans International BV)

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Multiple Option Facility

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Agents: Bank of Montreal, BNP, Citibank, Deutsche Bank, HSBC, Indus Bank, J.P. Morgan, KfW, London & Lancashire, Midland, Paribas, Royal Bank of Canada, San Paolo, Societe Generale, Swiss Bank Corp., Union Bank, WestLB, etc.

EUROMONEY PUBLICATIONS PLC

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the company will be held in The Board Room, Carmelite House, Carmelite Street, London EC4 on Wednesday, 27th January 1988 at 11.00 am for the following purposes:

- 1 To receive reports of the directors and the auditors and the accounts for the year ended 30th September 1987.
- 2 To approve a final dividend for the year ended 30th September 1987 of 8.75p on each of the ordinary shares of 1p each then in issue.
- 3 To re-elect PJ Saunders as a director.
- 4 To re-elect The Viscount Rothermere as a director.
- 5 To re-elect T Hosomi as a director.
- 6 To re-elect Sir Michael Sandberg as a director.
- 7 To re-appoint Ernst & Whinney as auditors of the company and to authorise the directors to fix their remuneration.

By order of the board
PS Gaur
Secretary
18th December 1987

Notes:

- 1 Holders of international depositary receipts (IDRs) in respect of ordinary shares in the company may give directions in writing as to the voting of such ordinary shares on application to Banque Internationale à Luxembourg SA (BIL) of 2 Boulevard Royal 2953, Luxembourg, attention securities department, and by depositing their IDRs with BIL, or any of the agents mentioned on the IDRs. Such instructions must be received by BIL and such deposits must be made not later than 11.00 am on Wednesday, 20th January 1988.
- 2 It is proposed to pay the final dividend, if approved, on 28th January 1988 to shareholders registered on 18th December 1987.
- 3 Holders of international depositary receipts can receive their dividend, if approved, from 28th January 1988, by presentation of coupon number 1 to Banque Internationale à Luxembourg or one of the agents.

Porter Paint Co.

has been acquired by

Courtaulds plc

We initiated this transaction and acted as financial advisor to Porter Paint Co.

Goldman Sachs International Corp.

December 15, 1987

Guthoffnungshütte Overseas N.V.

U.S.\$25,000,000

7 3/4 per cent. Guaranteed Bonds 1981/88

NOTICE OF FINAL REDEMPTION

Bondholders are advised that all outstanding Bonds are redeemable at par on 1st February, 1988 and that interest will cease to accrue on that date.

Bonds are payable at:-

S.G. Warburg & Co. Ltd.
Paying Agency, 6th Floor, 1 Finsbury Avenue, London EC2M 2PA
or one of the other Paying Agencies named on the Bonds.
Bonds and Coupons will become void unless presented for redemption or payment within periods of 12 years and six years respectively from the due date.
The following Bonds drawn for redemption on the dates stated below have not yet been presented for payment:-

1st February, 1987									
1038	1946	2386	2388	4535	4768	5171	5173		
5175	5178	5180	5182	5184	5186	5188	5190		
6255	7018	7021	7023	7024	7025	7026	7027		
15691	15693	15695	15697	15699	15701	15703	15705		
15707	24588	24590	24592	24594	24596	24598	24600		
24602	24604	24606	24608	24610	24612	24614	24616		

1st February, 1986									
2389	5177	5189	7653	15697	15709				

18th December, 1987

NBD BANCORP. INC.

U.S.\$100,000,000

Floating Rate Subordinated

Notes due 2005

Notice is hereby given that for the interest period 18th December 1987 to 18th March 1988 the interest rate has been fixed at 8 3/4%.

Interest payable on 18th March 1988 will amount to U.S.\$208.54 per U.S.\$10,000 Note.

Agent Bank:
Morgan Guaranty Trust
Company of New York
London

AMENDED NOTICE

The Molson Companies Limited

(Incorporated with limited liability under the laws of Canada)

U.S. \$20,000,000 Floating Rate Notes

Issue date 18th March 1987

Maturity date 18th March 1992

For the three month interest period from 18th December 1987 to 18th March 1988 the rate of interest on the notes will be 8% per annum. The interest payable on the relevant interest payment date will be U.S.\$10,111.11 per U.S.\$500,000 note.

Morgan Grenfell & Co. Limited
Reference Agent

U.S. \$200,000,000



BANK OF BOSTON CORPORATION

Floating Rate Notes Due 2000

Issued 12th September 1985

Interest Period 14th September 1987
14th March 1988

Interest Amount per U.S. \$50,000 Note due 14th March 1988 U.S. \$2,109.72

Credit Suisse First Boston Limited
Agent Bank

AUSTRALIA

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26 JANUARY 1988

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

INTL. COMPANIES

Fuji Photo sees slight increase in net earnings

BY OUR FINANCIAL STAFF

FUJI PHOTO FILM has forecast parent net profits of ¥62bn (\$487.8m) for the year to October 20, 1988, up slightly from ¥61.84bn a year earlier.

The company says profits are expected to rise to ¥122bn, from ¥127.35bn in 1986-87. Sales are expected to rise to ¥700bn from ¥680bn.

Fuji Photo plans to pay a ¥13.50 dividend for the 1987-88 period, unchanged from the previous year.

The forecast is based on Fuji Photo's plans to promote new products, cut production costs and strengthen its sales force. It comes in spite of strong competition from rival companies and

gloomy export prospects against the backdrop of serious international trade issues.

The company earlier reported a parent net profit of ¥61.84bn in the year ended October 20, 1987, up 12.8 per cent from the previous period. Current profit was ¥127.35bn, an 11.8 per cent increase from ¥113.91bn in 1986-87.

Operating profit rose 11 per cent, to ¥113.37bn, in 1986-87, compared with ¥102.17bn a year earlier.

Sales rose by 5.4 per cent, to ¥680.05bn from ¥644.96bn in 1986-87. The dividend was ¥13.50, unchanged from the previous year.

British group buys into Colly Farms

BY OUR FINANCIAL STAFF

ANGLO AMERICAN Agriculture of Britain has acquired 1.8m shares, or 4.9 per cent of the issued capital, of Colly Farms Cotton of Australia, according to Baring Brothers, Halkerton and Partners, Anglo American's agent.

Baring Brothers said the shares of the cotton producer, subject of a takeover bid by Kerry Packer's privately owned Consolidated Press Holdings, were acquired at between A\$1.87 and A\$1.90 (US\$1.33 and US\$1.35) a share. Mr Packer launched a A\$1.86 a share bid on Tuesday for all the stock in Australia's second-biggest cotton producer.

Consolidated Press holds a 19.33 per cent stake in the New South Wales cotton producer. It bought Auscott, the country's biggest cotton producer, two

months ago.

The board of Colly Farms had earlier said that in the absence of a higher offer it would recommend acceptance of the Consolidated Press bid and that shareholders representing about 33 per cent of issued capital had indicated they would accept.

But the board yesterday advised shareholders not to sell their shares because of the possibility of a higher offer.

The company said: "The board will seek immediate discussions to clarify the situation for shareholders. In the meantime, the board advises Colly Farms shareholders not to sell their shares in case a higher offer is received."

Australia produces about 300,000 tonnes of cotton a year, about 90 per cent of which is exported.

Singapore drinks group edges ahead

By Our Financial Staff

FRASER & NEAVE, a leading Singapore food and drink manufacturer and distributor, says group operating profits in the year ended September climbed by 18.5 per cent to S\$111.7m (US\$66.1m), compared with S\$94.5m in the previous year.

Turnover rose by 5 per cent, to S\$211.9m, from S\$77.7m.

The company said the portion of operating profit derived from Fraser & Neave operations only - chiefly beverage bottling and distribution - fell by 7.4 per cent, to S\$18.7m. Its Malaysian Breweries subsidiary provided S\$70.2m, up 18.6 per cent from a year earlier.

The share of profits from associates added S\$11.9m to operating profits, a 183 per cent increase from S\$5.1m recorded a year earlier, while investment income edged up 8 per cent, to S\$12.9m.

Weak demand for Shangri-La rights issue

By Our Financial Staff

SHANGRI-LA HOTEL says its one-for-10 rights issue, totalling S\$45m (S\$22.6m), received acceptances for only 74.3 per cent of the shares on offer.

Shangri-La is the latest in a succession of Singapore and Malaysian companies to face problems with their cash calls because of the collapse of global equity prices in October.

The company received acceptances for 7.43m of the 10m S\$1 shares offered at S\$4.50 a share. Shangri-La shares, which hit a peak of S\$7.15 in July, closed at S\$3.45 on the Singapore exchange yesterday.

The remaining 2.57m shares were almost entirely taken up by the chief underwriter for the issue, Development Bank of Singapore.

First Pacific in venture to acquire Thai broker

BY OUR FINANCIAL STAFF

HONG KONG'S First Pacific Securities (Holdings) has joined Yip Intsoo Finance, a Thai securities house, and Thailand's Bank of Asia to acquire World Securities, the Thai stockbroker.

Mr Manuel Panglilan, chairman of First Pacific Group, said the purchase, which will be approved by Thai monetary authorities, would be a step towards First Pacific's goal of building a network of securities companies throughout South-East Asia.

He said World Securities would focus mainly on serving foreign investors wishing to invest in the Thai market.

Mr Panglilan said the three partners bought shares in World Securities at a premium of more than 100 per cent over its paid-up capital of Baht10m (\$398,855).

He said the payment of a large

premium was unavoidable as few brokers available for purchase in Thailand.

Thai authorities are considering raising the minimum capital requirement for brokerages to Baht20m, from Baht10m. The move would require an additional capital outlay from the purchasers, Mr Panglilan said.

Although World Securities is licensed to trade securities, it does not have a seat on the Securities Exchange of Thailand and has not been active in the market under its existing owners.

But Mr Panglilan said that following the purchase, World Securities would begin immediately to trade as a sub-broker, and he expected the company to win approval of its application for a seat on the exchange by the end of the month.

U.S. \$200,000,000

B.B.L. International N.V.

Floating Rate Notes Due 2001

Guaranteed on a Subordinated Basis as to payment of principal and interest by



Banque Bruxelles Lambert S.A./
Bank Brussel Lambert N.V.

Interest Rate 8.175% per annum

Interest Period 18th December 1987
20th June 1988

Interest Amount due 20th June 1988
per U.S. \$10,000 Note U.S. \$ 420.10
per U.S. \$250,000 Note U.S. \$10,502.50

Credit Suisse First Boston Limited
Agent Bank

APPOINTMENTS

Reorganisation at Royal Bank of Scotland

AT THE ROYAL BANK OF SCOTLAND GROUP, Mr Kenneth Thompson, head of group finance at Glaxo, the pharmaceuticals company, is to become its group finance director, James Buxton, says. Mr Thompson's appointment is one of a number of changes which continue the restructuring, begun last year, of the Edinburgh-based organisation into a holding company controlling subsidiaries, which include the Royal Bank itself and Charterhouse, the group's merchant banking arm. Mr Thompson will become one of a four man group executive led by the group chief executive Mr Charles Winter. It includes Mr Rob Farley, deputy chief executive, and Dr George Mathewson, the former chief executive of the Scottish Development

Agency, who recently became responsible for strategic development and planning. Mr Victor Blank, chief executive of Charterhouse, is to leave the board of the Royal Bank of Scotland but will remain on that of the Royal Bank of Scotland Group. The group said Mr Blank was leaving in order to emphasise the distinction between the group's subsidiaries, and also to reinforce the polarisation between the clearing bank and the merchant bank. Three other directors are leaving the board of the Royal Bank of Scotland while five new non-executive directors are joining the board of the bank. Mr Thompson, who will become the fourth member of the group.

GENERAL ACCIDENT FIRE AND LIFE ASSURANCE CORPORATION, Perth, has appointed Mr Wilfred A. Jones as deputy general manager, General Accident Reinsurance Co; he also becomes marine manager and underwriter of the Corporation and will be responsible for the management of the marine and aviation departments. Mr John A. Hayton has been appointed assistant general manager, General Accident Reinsurance Co. Mr Robert A.P. Barrows will succeed Mr Hayton as aviation manager.

Mr David Holder has been appointed managing director of the ELLIS GROUP UK contracting division. He joined the group in 1980 from Haden International.

Mr Brook Land, a partner of Nabarro Nathanson, has been appointed a non-executive director of JACK L. ISRAEL GROUP from January 1.

Mr Michael Griffin has been appointed to the board of ENTICON, Camberley. He was general manager.

Mr Brian Street has been appointed chairman of the new east regional council of the CONFEDERATION OF BRITISH INDUSTRY. He is chairman of Air Products.

Mr P. Britton and Mr P.L. Crook, have been appointed directors of DOBSON PARK INDUSTRIES from January 1. Mr Britton has executive responsibility for Dobson's Fletcher Sutcliffe Wild Mining Equipment subsidiaries, and will succeed Mr Jack Shepherd who retires next February. Mr Crook has responsibility for Dobson's toys and plastics division.

Mr David Fletcher and Mr Michael Quicke have been appointed managing directors of LEOPOLD JOSEPH & SONS from January 1.

Mr Charles M. Fenton, chairman of the BBA Group, and of British Mole Holdings, has been appointed a non-executive director of BARR & WALLACE ARNOLD TRUST, Leeds, from January 1.

Following the SAMUELSON GROUP's agreed acquisition by Eagle Trust, Mr Robert Black,

operations director of Eagle Trust, has been appointed chief executive of Samuelson. Mr Martin Baker, Eagle Trust's finance director, becomes finance director of Samuelson. Sir John Mayne Sanders and Mr Richard Gane remain on the board.

VSEL DEFENCE SYSTEMS CANADA INC., a subsidiary of VSEL Consortium, the UK's largest weapons builder, has appointed Rear Admiral (Rtd) as president. Mr Frank Nook, commercial director of VSEL Consortium, has been appointed chairman. Also joining the board are: Mr E.J. Daniel, VSEL director of the Canadian project; Mr F.G. Caldwell, VSEL's technical director of VSEL Consortium; Mr J.E. Killick, a senior vice president of Canadian Marconi; Mr S.P. Hughes, chairman of Corporation House, Ottawa; and Vice Admiral Jack Allan (Rtd) senior principal with CFN Consultants.

Mr Roger Laughton, currently head of BBC TV daytime programming, has been appointed to the new post of director of co-productions for BBC ENTERPRISES, and joins the board. The new post was created following the appointment of Mr John Reynolds, previously general manager co-productions, as head of BBC North America.

Mr Richard Buchanan, previously chief sales manager, has been appointed assistant general manager (sales and marketing) of COLONIAL MUTUAL. He is succeeded by Mr Alan Spragg, previously sales manager, recruitment and training.

Mr Gordon Prosser, a former director of NatWest Investment Bank, has been appointed a non-executive director of the ARCHWAY GROUP.

SIMMONS & SIMMONS has appointed the following as partners from January 1: Mr Jonathan Matthews (property); Mr Richard Allnutt; Mr Michael Prosser; and Mr Roger Butterworth (corporate); Mr John Quilley (planning); Mr Robert Schon (tax); Mr David Sandy (litigation); and Mr Bowas Freeland (intellectual property).

NOTICE OF REDEMPTION AND TERMINATION OF CONVERSION RIGHTS

SUMITOMO CORPORATION

(Sumitomo Shoji Kabushiki Kaisha)

U.S. \$70,000,000

7 3/4% Convertible Bonds

Due 1999 (the "Bonds")

NOTICE IS HEREBY GIVEN that in accordance with the provision of the Trust Deed dated 9th May, 1984 between Sumitomo Corporation (the "Company") and The Bank of Tokyo Trust Company as Trustees, under which the above-described Bonds were constituted, the Company has elected to exercise its right to, and shall, redeem on 29th January, 1988, all of its outstanding Bonds at a redemption price of 104 per cent of the principal amount thereof, together with accrued interest to such date of redemption which will amount to U.S. \$47.52 per U.S. \$5,000 principal amount of the Bonds.

The payment of the redemption price and accrued interest will be made on and after 29th January, 1988 upon presentation and surrender of the Bonds, together with all coupons appertaining thereto maturing subsequent to 29th January, 1988, at the principal office of The Sumitomo Bank, Limited, as Principal Paying Agent for the Bonds, in London, Temple Court, 11 Queen Victoria Street, London EC4N 4TA, or at the principal office in the city indicated below of any of the following Paying Agents:-

Delva Europe Limited, London
The Bank of Tokyo, Ltd., London
Banque Paribas, Luxembourg
Banque Nationale de Paris, Paris
Deutsche Bank Aktiengesellschaft, Frankfurt/Main
Morgan Guaranty Trust Company of New York, Brussels
The Sumitomo Bank, Limited, Brussels
Swiss Bank Corporation, Basel

On and after 29th January, 1988, interest on the Bonds will cease to accrue. The Bonds may be converted into shares of common stock of the Company at the conversion price (with Bonds taken at their principal amount translated into Japanese Yen at the rate of ¥225.40 equals U.S. \$1) of ¥539.10 per share of common stock. The Company's common stock is issuable only in Units of 1,000 shares of integral multiples thereof. A cash adjustment will be paid for any fraction of a Unit.

Each Bondholder who wishes to convert his Bond should deposit his Bonds, together with all unexpired coupons, with any of the Conversion Agents being the same as the Paying Agents specified above, accompanied by a notice of conversion (the form of which notice is available from any of the Conversion Agents). SUCH CONVERSION RIGHTS WILL TERMINATE AS TO ALL BONDS AT THE CLOSE OF BUSINESS ON 29th JANUARY, 1988.

For the information of the Bondholders, the reported closing price of the common stock of the Company on the Tokyo Stock Exchange for each of the 25 consecutive trading days from 2nd November, 1987 to 4th December, 1987, ranged from a high of ¥540 to a low of ¥485 per share. The reported closing price of such shares on the Tokyo Stock Exchange on 7th December, 1987 was ¥491 per share.

SUMITOMO CORPORATION
By: The Sumitomo Bank, Limited
as Principal Paying Agent

18th December, 1987

UK COMPANY NEWS

FULL YEAR PROFITS UP 24% TO £456M

Grand Met weighs up Martell bid

By Lisa Wood

Grand Metropolitan, the UK drinks and hotel group, is examining ways by which it can make a full bid for Martell, the French Cognac House in which Seagram has announced a majority control.

The news coincided yesterday with Grand Metropolitan's full year results showing pre-tax profits of \$456.1m, an increase of 24 per cent on last year's \$367.7m. The announcement of a possible bid was made at Martell's annual meeting.

Second half profits of \$288.4m showed an increase of 28 per cent on the corresponding period with an improved contribution from Inter-Continental Hotels and a strong performance from IDV, the wines and spirits business which acquired Huebner earlier this year.

The adverse exchange rate of the US dollar knocked profits by a theoretical \$20m. Extraordinary profits of \$127.8m were generated in the year following the disposal of businesses considered to be non strategic.

Earnings per share increased by 21 per cent from 32.1p to 38.9p. The final dividend rises 20 per cent to 7.5p making 12p (10.25p) for the year.

Grand Metropolitan's IDV wine and spirits subsidiary made a trading profit for the year of \$222.3m (\$147.2m). Huebner contributed turnover and trading profit in 1987 of \$336.1m and \$59.9m respectively with a net contribution of \$25m. Smirnoff, a major Huebner brand, and other IDV brands including J&B Rare, Balley Irish Cream and Malibu all showed improved growth.

In the brewing division beer volume increased by 4.5 per cent in a static marketplace and produced a trading profit of \$100.4m (\$90.3m). Sales of lager, with brands including Foster's and Budweiser, accounted for 55 per cent of the beer volume with an increase in sales of ale assisted by Ruddies, the real ale brand.

UK Consumer Services contributed a trading profit of

\$79.1m (\$67.7m). Retailing in public houses and outlets such as Chief & Brewer hotels showed a growth in trading profits. Trading profits of Mecca Bookmakers "did not meet expectations, because of reduced industry margins in the second half year."

Express Foods reported a 18 per cent increase in trading profit despite the decline in doorstep liquid milk sales, reduced prices and margins for cheese products and the effects of the cuts in UK milk production. Eden Vale and Express Foods in Ireland made good contributions.

The Inter-Continental Hotels chain, whose problems were addressed last year, produced improved results with trading profits of \$37.9m in the full year (\$30.4m) and \$27.6m in the second half - a 41 per cent increase on the same period of the previous year. Two new hotels were opened in 1987 with five scheduled for this year.

The US Consumer Products division was restructured in 1987, and continuing businesses con-



Allen Sheppard, chairman of Grand Metropolitan, contributed a trading profit of \$67.8m (\$58.8m) with Pearle, the eyecare business, showing strong growth.

Bond Corp. stake in Allied now exceeds 5%

By Lisa Wood

MR ALAN Bond's Bond Corporation has increased its stake in Allied Lyons, the UK brewing and food group, to just over 5 per cent, Allied Lyons disclosed yesterday.

Last month Allied revealed that Bond Corporation had gradually built up a 2.5 per cent stake in the business. Allied said it was currently 5.01, representing 36.5m of its shares.

Mr Clifford Hatch, Allied's finance director said yesterday: "Mr Bond's shareholding is now at a point where it is important for us to have a conversation with him to determine his motives." Mr Hatch said he knew nothing at present about Mr Bond's motives.

Bond Corporation and Allied have had a close relationship since 1984, when Bond's Castlemeane beer brand, which Allied brewed in the UK under licence and its subsidiary Brian Walker brews in Canada. In addition Allied is the UK agent for Bond's Swann lagers in the UK.

Allied which last year successfully fought off a \$1.8m leveraged bid proposal from Elders Ltd, the Australian brewing, pastoral and financial services group, has to date said that it viewed Bond's purchases as supportive.

Corporation is understood to have bought its 2.5 per cent stake at an average of some \$4.40, on which it is now showing a substantial loss.

Mr John Dunsmore, of Wood Mackenzie, the stockbroker, said: "I believe it is in Bond's interests to keep up Allied's share price as it is sitting on a substantial loss. This is more likely to be a prelude to a bid."

Watson & Philip advances 59% to £2.63m

A strong performance throughout the group's divisions resulted in Watson & Philip posting a 59 per cent increase in taxable profits to £2.63m in the 12 months to end-October.

Turnover of the Dundee-based food distributor rose 36 per cent from £149.65m to £203.94m. The directors said that as overall trading expectations for the coming year were good, with first results suggesting worthwhile contributions from recent acquisitions, the group could anticipate further progress.

The delivered grocery and retail division showed profits of £519,000 (£477,000) and, according to the directors, had a good year considering the continued increase in competition from the multiples. Marketing activities led to increased demands on the printing operation; this had moved to a new site in Dundee where the improved facilities would enhance the profit and service contribution from the division.

The catering side contributed £1.74m against £1.09m with the help of Smalleys, acquired in November 1986, which had fulfilled best expectations.

Catering operations made profits of £587,000 (£340,000). The directors said that the acquisition of Turner Brothers would enable the group to extend and develop its activities in the north of England.

BP increases holding in Britoil to 24.9%

British Petroleum moved decisively into the market for Britoil shares yesterday, buying 50m shares at 450p to push its stake up to 24.9 per cent.

This is the maximum allowed under Takeover Panel rules without a pause. BP has said that it wants to obtain 29.9 per cent of Britoil, the most it may hold without making a full bid for the company.

After BP's purchase, the share price fell back, ending the day at 422p, 16p higher than at the close on Wednesday.

It is generally thought that BP wants to make a full bid, but will not do so until the Government

gives a clearer indication as how it will use its "golden share".

This share, created when The British National Oil Corporation was sold into the private sector, gave the Government 51 per cent of the shareholders' votes in the event of a change of ownership.

The market was yesterday waiting for the next move by Atlantic Richfield of the US which has built up a 7.4 per cent stake in Britoil and has signalled its intention to bid against BP if it decides to try to obtain outright control of the company.

Arco still has an outstanding tender for 29.9 per cent of Britoil

at 350p, but this was immediately outbid by BP, which said that it would buy shares at a higher price.

Arco agreed last week that it would make over its oil assets to Britoil in exchange for a further 20 per cent of the equity.

However, the advisers that under its rules Arco would have to launch a full bid as soon as it obtained more than 30 per cent.

Moreover, under Takeover rules, a waiver against this obligation would not normally be given when the two companies had been talking about an asset swap.

Burmah buys ICI petrol sites

By Lucy Kellaway

Burmah Oil announced yesterday that it had bought from ICI its UK petrol business for \$21m, which will increase its share of the retail market to between 4 and 5 per cent.

The business consists of 300 dealer-owned sites trading under the ICI brand name and based in the North of England and Scotland, as well as several fuel distributors. Burmah said the acquisition fitted well with its existing

business, and would increase the number of its outlets to about 1,500.

Mr Lawrence Urquhart, Burmah's managing director, said the acquisition would provide "a valuable source of UK earnings" and will go some way to correct Burmah's tax imbalance in the UK.

He said the company was committed to the marketing of fuels and expansion in the area would

continue. At the same time Burmah announced a long term supply agreement with ICI for 800,000 tonnes of petrol produced by ICI.

Burmah said this would underpin its future supply, for which it now depends on the major oil companies.

The new sights are to be changed to the Burmah and Major brand names starting in the New Year.

Firth makes £0.7m provision

By Philip Coggan

G M Firth (Holdings), the industrial group, yesterday became one of the first non-financial services companies to make a provision for the effects of the stock market crash.

The company's half year ended on September 30, before Black Monday, but the subsequent fall in the value of its investments has caused the company to make an exceptional provision of \$555,000.

However, in July, the company said a 25 per cent stake in the engineering equipment manufacturer Porter Chaddburn, and the resultant profit over book value is shown as an extraordinary profit of \$1.68m.

Following that sale, G M Firth's stake has fallen below 50

per cent and in future Porter Chaddburn's profits will be treated as an associated company. Profits at Porter Chaddburn were considerably reduced but new management has been installed and Porter's recent acquisition of Tasc Distributors should result in much improved profitability in the second half.

Despite the exceptional provision, G M Firth's interim pre-tax profits were still ahead by 18 per cent to \$1.85m (\$1.45m). The steel stockholding division improved profits by 18.4 per cent and the property and investment division made a "significant" first half contribution.

However, the recession in the marine industry has hit orders at the furnishing, floorings and fittings division. Turnover fell by 30 per cent in the first half and profits were much reduced. Profits in the transport division were also lower than last year.

After tax of \$555,000 (\$412,000) and minorities of \$24,000 (£143,000), earnings per share were nearly 16 per cent higher at 3.12p (\$2.73p). The interim dividend is being maintained at 1.5p.

Mr Ian Wasserman, the chairman, is confident for the future. Profits in the steel stockholding division were at record levels in October and November, and the prospects for the second half in the furnishing division are more promising.

Legrand withdraws bid for MK

By David Waller

MK Electric's fate seems sealed after Legrand, the French electricals company, yesterday dropped its \$60p offer for MK in the face of the 700p agreed bid from RTZ.

Legrand said that it considered its \$55m offer to be full and generous that it did not intend to top RTZ's offer, worth \$262.8m in cash with a loan note alternative. RTZ's first bid of \$306.5m was rejected out of hand by MK's management.

Meanwhile, the mining and industrial conglomerate bought a further 10.92 per cent of MK's shares at the offer price, taking its total holding to more than 38 per cent. Legrand still holds 9 per cent of MK, bought at around 60p.

MK's shares closed at 703p, reflecting the faintest of hopes for a counter-bid from another party.

Midsummer

Midsummer Leisure lost \$40,000 on its investment in Boddington shares, not \$40m as reported in yesterday's FT.

LMS surges to over £7m

A \$3M surge in pre-tax profits to \$7.23m was reported by London Merchant Securities for the half year ended September 30 1987. The group's activities cover property, leisure and energy.

During the period, net rental income rose to \$8.8m (\$7.42m), oil and gas returned a profit of \$13,000 (loss \$222,000), leisure contributed \$1.11m (\$572,000), property trading \$374,000 (other loss \$234,000), and investment income \$584,000 (\$1.12m).

Lord Rayne, chairman, said the \$40m cash purchase of the Church Commissioners' interest

in the Cartwright Estate brought a major part of the group's property holdings into its full ownership. Net assets have increased but the short term revenue effect of the expenditure would be to curtail profits for the second half.

The chairman said the increase in rentals reflected the continuing upward trend, new lettings of refurbished office space and the first contribution from recent investments in retail shops.

Turnaround in gas and oil stemmed mainly from the rise in

oil prices over last year. Energy interests are held through Carless Capel & Leonard, 27.44 per cent owned.

Profits of First Leisure (28.52 per cent held) reflected good performance in all divisions in what is traditionally the less profitable period.

After tax \$2.35m (\$1.65m), minorities \$759,000 (£1.02m) and pre-acquisition profits \$401,000, the attributable profit came to \$3.72m (\$1.57m) per share. The interim dividend is again 0.8p.

Audio Fidelity profits boost

By Steven Butler

Audio Fidelity, the speaker, book and novelty electronics company, produced a nearly four-fold rise in pre-tax profits on a merger accounting basis, from \$122,000 to \$610,000, in the year to the end of June, following the effective reverse takeover of the company by the Fanfare Group, which was announced in February. Sales rose from \$3.44m to \$8.90m.

Earnings per share rose from 2.1p to 11.6p (from 1.7p to 8.9p after discontinued activities), with a dividend declared at 0.5p per share. Audio Fidelity shares

yesterday rose from 76p to 86p. The bulk of the improvement appears to come from the Fanfare side of the business, which has expanded rapidly in two product areas, Fanfare Books, which includes the "In the Bag Collection" of gift books, and Fanfare Electronics, which includes specialist electronics such as pocket currency exchange and calorie calculators.

These businesses, which comprise the consumer product division of the group, produced pre-tax profits of \$402,000. Profits in the continuing activ-

ities of the audio division reached \$343,000, which compare roughly to \$200,000 in a 14 month period of the previous year.

The year-on-year comparison of growth in profits for continuing activities was from \$135,000 to \$745,000, while 1987 losses in discontinued activities reached \$135,000.

Mr Stephen Goldberg, chairman, said the improved results in the audio division came from better demand and improved marketing efforts, and that these would continue to boost sales

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December 1987

Hawtin climbs to £431,000

Hawtin, manufacturer and distributor of protective clothing, pushed up its profit from \$356,000 to \$431,000 in the year ended September 30 1987, after a loss of \$28,000 at midyear.

Turnover rose from \$20.83m to \$21.76m. In manufacturing the progress of Gul wet suits continued. Losses at Stewart Singman were arrested, although it incurred a substantial deficit for the year.

Profitability was restored in October and November, and the new management was confident a profit would be made this year. Rationalisation of the industrial clothing division continued with the closure of the Elre subsidiary. All the companies in the distribution side traded satisfactorily and further progress was expected this year.

Earnings for the year were \$431,000 and the dividend is held at 0.375p.

Victoria Carpet

Outlook for Victoria Carpet Holdings remained favourable and the dividend for the year to March 31 1988 was likely to be increased over the previous 2.75p.

This was stated by the directors in their interim report. That showed first half turnover up from \$15m to \$15.99m and the pre-tax profit ahead from \$561,000 to \$701,000.

There was sustained demand in Australia and sales and profit were satisfactory. However, caution had to be expressed over exchange rates.

In the UK trade continued strong. Enthusiasm for the company's products was still being experienced.

Hawker options

Options on the shares of Hawker Siddeley began trading yesterday on the London Traded Options Market. Options on 57 companies are now tradeable, as well as three gilts, two currencies and the FT-SE 100 index.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div	Total for year	Total for year
Alm Group	2.2	Apr 5	1.9	0.5	6
Audio Fidelity	0.5	Apr 5	0.5	1.0	1
Bankers Inv Trst	0.52	Feb 22	0.53	1.05	1.37
Firth (GEM)	0.5	Apr 7	0.5	1.0	1
Grand Met	7.5	Apr 11	6.25	12	10.25
Habes	0.63	Feb 5	0.62	1.25	1.30
Hawtin	0.38	Feb 5	0.38	0.38	0.38
London Merchant Int	0.9	Feb 6	0.9	1.8	2.3
MacCarthy	7	Apr 6	4	11.5	13.5
MS Intl	0.75	Feb 6	0.5	1.25	2
Nash Inds	1.5	Apr 1	1	2.5	1.5
Quest Group	0.5	Apr 1	0.5	1.0	0.91
Watson & Philip	5.7	Apr 1	4.8	10.5	8.8
Wheway	0.5	Apr 1	0.5	0.65	0.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †Unquoted stock. ‡Third market. §For 17 months. † Minimum total of 1.72p forecast for current year.

Cifer well ahead despite sharp fall in second half

SECOND HALF profits at Cifer, USM-quoted supplier of computer terminals and microcomputers, were well down at \$4,700 against \$38,800, but for the year ended September 30 1987 the company announced a surge in taxable profits from \$41,800 to \$230,700.

At the halfway stage Mr Oliver Newland, the chairman, warned that the business had become more seasonal and that it would be wrong to expect the same growth in the second six months. In the event, he said that the second half had proved to be a difficult trading period during which the company had done

well to trade profitably and not erode first half profits. Turnover for the year fell from \$5.14m to \$4.29m, but operating profits came out ahead at \$230,700 (\$477,000). Interest and minority charges totalled \$347,900 (\$455,800). Earnings per 10p share worked through at 1.47p (2.25p losses) and last time there was an extraordinary \$336,800 debit.

The chairman added that the emergency loans totalling \$425,000 had been repaid. During the past two years the company's borrowings had been reduced by £1m and the further elimination of debt remained a priority.

GRANVILLE SPONSORED SECURITIES

High	Low	Company	Price	Change	Gross div	Yield	P/E
306	133	Am. Brk. Ind. Ordinary	133	0	0.0	4.4	7.2
307	145	Am. Brk. Ind. CULS	145	0	10.0	8.0	
41	26	Arbitrage and Rholet	26	-1	0.0		
142	40	888 Design Group (USM)	40	0	2.7	1.7	26.7
188	108	Barton Group	108	0	2.1	3.7	8.8
186	95	Bay Technologies	140	0	4.7	1.7	26.7
35	130	Bay Technologies	250	0	11.5	4.4	6.6
147	90	CCCL Group 15% Cum Pref	131	0	12.7	12.1	
171	130	Carborundum Ordinary	131	0	5.4	4.1	11.4
104	91	Carborundum 7.5% Pref	100	0	10.7	10.7	
188	57	George Blair	146	0	3.7	3.5	3.8
143	75	Isis Group	92	0	3.4	3.7	10.2
104	39	Jackson Group	92	0	10.2	10.2	
88	35	Recent Holdings (USM)	57	0	6.1	11.5	
115	83	Recent Holdings 10% Pref (USM)	55	0	14.1	13.1	
91	55	Robert Jenkins	55	0	5.5	4.4	2.4
224	30	Sorrento	203	0	6.6	3.3	9.9
71	32	Teravia Holdings (USM)	31	0	2.7	4.2	9.4
121	41	Unicoll Holdings (USM)	31	0	5.9	3.4	12.2
24	120	W.S. Yates	120	0	17.4	8.6	20.3
205	150	West Yorkshire Ind. (USM)	120	0	8.5	4.6	12.7

Securities designated (USM) and (USM) are listed in the rules and regulations of the Stock Exchange. Other securities listed above are dealt in subject to the rules of FIMBRA.

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8 Lower Lane, London EC3R 8BP
Telephone 01-621 1212
Member of FIMBRA

Granville Davies Coleman Limited
8 Lower Lane, London EC3R 8BP
Telephone 01-621 1212
Member of the Stock Exchange

NOTICE
To the Holders of the
Bearer Depository Receipts
Representing an individual interest in a
floating rate deposit finally due 1986 with
C.A. Cavendes, Sociedad Financiera

Citibank, N.A., as Trustee and Depository under the Indenture of Trust under which the above mentioned Bearer Depository Receipts (the "Receipts") were issued, has received the whole amount due and payable for the principal of the certificate of deposit of C.A. Cavendes, Sociedad Financiera which matured on August 18, 1986, and for interest on said principal amount through November 27, 1987. Such principal and interest, and for collection by the holders of the Receipts and appurtenant coupons. The collection with payment instructions, if any, to the Paying Agents. Upon such surrender of Receipts or coupons will be provided with a letter indicating the portion of the payment being made attributable to principal, interest and investment earnings.

Should you need additional information please contact E. J. Jaworski, V.P., Citibank, N.A., 6 Hanover Square, 15th Floor, New York, N.Y. 10043; Telephone: (212) 208-7137.

CITIBANK, N.A.
as Trustee and Depository
Dated: December 18, 1987

GRAND METROPOLITAN

PUBLIC LIMITED COMPANY

1986/87 RESULTS

PRE-TAX PROFITS UP 24%
TO £456.1M. ⁽¹⁾

EARNINGS PER SHARE UP 21% ⁽¹⁾

FINAL DIVIDEND UP 20% ⁽²⁾

(1) Preliminary
(2) Recommended

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After 25 very successful years Grand Metropolitan has produced its highest ever increase in earnings per share, with record results across every sector of the company. This is a reflection of the effort of everyone involved, especially our employees.

Results like these take experience and skilful management. Grand Metropolitan has both.

And, although it is tempting simply to point to the figures, the proof is more than just financial. Grand Metropolitan is now a better focussed company. It disposed of those businesses which were not a part of its long-term strategy and acquired businesses which enhanced each of its key activities.

Which means that Grand Metropolitan has been able to concentrate and direct its energies into the businesses where it is strong. To add strength to strength, not only from the outside but from the inside, through innovation and new product development.

Grand Metropolitan is now one of the UK's largest, most broadly based international companies. Its strengths are Specialist Retailing, Drinks, Food, and Hotels & Gaming. By building on these it is succeeding in more countries and with more customers.

And it is still growing rapidly.

Which isn't surprising. Its philosophy is, after all, to develop and add value to all its brands, businesses and properties.

That's why the year, which has been such a success, is the start of something even better.

GRAND METROPOLITAN

....adding value 

Dome Petroleum Limited

Notice to the Holders of the
Outstanding Principal Amounts of

U.S. \$75,000,000 Floating Rate Notes due 1988	U.S. \$130,000,000 16 1/4% Fixed Rate Notes due 1988
U.S. \$50,000,000 Floating Rate Notes due 1989	U.S. \$50,000,000 10% Debentures Due 1994
U.S. \$50,000,000 13 1/4% Debentures Due 1992 (the "Notes and Debentures")	

PLEASE REVIEW THE AMOCO ACQUISITION COMPANY LTD. ADVERTISEMENT ACCOMPANYING THIS NOTICE

Under the terms of the November 19, 1987 Amended Arrangement Agreement between Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., the holders of the Notes and Debentures referred to above, the Plan of Arrangement referred to in the Amended Arrangement Agreement is approved by the creditors of Dome Petroleum Limited and its subsidiaries, shareholders of Dome Petroleum Limited and the Court and all other preconditions to the closing of the transaction are satisfied, receive on closing a cash payment equal to 45% of the outstanding principal and interest on the Notes and Debentures held, which payment will be calculated as of the first day of the month during which the Plan of Arrangement becomes effective. This payment will be made to the holders of the Notes and Debentures referred to above in exchange for all of the holder's right, title and interest, actual or contingent, in and to such Notes and Debentures following which such holders would have no further rights to receive principal, interest or any other payments on such Notes and Debentures.

As described in the accompanying Advertisement, a Court hearing has been scheduled for January 26, 1988 at Calgary, Alberta, Canada. This will be a preliminary hearing on the issues identified in the accompanying Advertisement. No voting by creditors will take place at that hearing. Creditors will be given the opportunity to vote for or against the Plan of Arrangement at a subsequent date as prescribed by the Court and proper notice thereof will be given to the holders of the Notes and Debentures.

This Notice is published on behalf of Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd. for the sole purpose of providing additional summary information to the holders of the Notes and Debentures referred to above.

This Notice is not an offer to purchase or redeem or a solicitation of an offer to sell the Notes or Debentures. Information with respect to the Plan of Arrangement will be contained in an information circular to be distributed prior to the solicitation of votes or consents.

Any interested Holders wishing to obtain copies of certain documents pertaining to the court application, namely the Petition, the Order, the Notice of Motion and the Affidavit filed in support, may do so at the following offices of the respective Paying Agents on or after the 18th day of December, 1987:

U.S. \$75,000,000 Floating Rate Notes due 1988 - Société Générale Alsacienne de Banque (Luxembourg), 15 Avenue Emile-Reuter, Luxembourg (Grand-Duché), as principal Paying Agent; Banque Générale du Luxembourg S.A. (Luxembourg), 14 Rue Aldringen, Luxembourg (Grand-Duché); European American Bank and Trust Company (New York), 10 Hanover Square, New York, New York 10005, U.S.A.; J.P. Morgan Investment Company (S.A.K.), Mubarak al-Kabir Street, Kuwait City, PO Box 1005 Safat, 13011 Safat Kuwait; Morgan Guaranty Trust Company of New York (Brussels), 35 Avenue des Arts, 1040 Brussels, Belgium; Société Générale (Paris), International Finance Department, 3 Rue Lafayette, 75009 Paris, France; Société Générale (London), 60 Gracechurch Street, London EC3V 9HD, England.

U.S. \$130,000,000 16 1/4% Fixed Rate Notes due 1988 and U.S. \$50,000,000 Floating Rate Notes due 1988 - Société Générale Alsacienne de Banque (Luxembourg), 15 Avenue Emile-Reuter, Luxembourg (Grand-Duché), as principal Paying Agent; Banque Générale du Luxembourg S.A. (Luxembourg), 14 Rue Aldringen, Luxembourg (Grand-Duché); European American Bank and Trust Company (New York), 10 Hanover Square, New York, New York 10005, U.S.A.; J.P. Morgan Investment Company (S.A.K.), Mubarak al-Kabir Street, Kuwait City, PO Box 1005 Safat, 13011 Safat Kuwait; Morgan Guaranty Trust Company of New York (Brussels), 35 Avenue des Arts, 1040 Brussels, Belgium; Société Générale (Paris), International Finance Department, 3 Rue Lafayette, 75009 Paris, France; Société Générale (London), 60 Gracechurch Street, London EC3V 9HD, England.

U.S. \$50,000,000 10% Debentures Due 1994 and U.S. \$50,000,000 13 1/4% Debentures Due 1992 - Canadian Imperial Bank of Commerce (Toronto), Main Branch, Commercial Court, Toronto, Canada M5L 1G5 as principal Paying Agent; Canadian Imperial Bank of Commerce (London), 55 Bishopsgate, London EC2N 3NN, England; Banque Générale du Luxembourg S.A. (Luxembourg), 14 Rue Aldringen, Luxembourg (Grand-Duché); Deutsche Bank Aktiengesellschaft (Frankfurt), Taunusanlage 12, D-6000 Frankfurt am Main 1, West Germany; Morgan Guaranty Trust Company of New York (New York), 30 West Broadway, New York, New York 10015, U.S.A.; Morgan Guaranty Trust Company of New York (Brussels), 35 Avenue des Arts, 1040 Brussels, Belgium; Swiss Bank Corporation (Zurich), 5 Paradeplatz, 8022 Zurich, Switzerland.

In the Court of Queen's Bench of Alberta Judicial District of Calgary

In the Matter of the Canada Business
Corporations Act, S.C. 1974-75, c. 33, as amended

and in the Matter of a Plan of Arrangement Proposed by
AMOCO ACQUISITION COMPANY LTD.

TAKE NOTICE THAT AMOCO ACQUISITION COMPANY LTD. ("Amoco Acquisition"), a corporation incorporated under the laws of Canada, intends to propose an arrangement (the "Plan of Arrangement") under the Canada Business Corporations Act, pursuant to the terms of the Amended Arrangement Agreement dated May 12, 1987 between Dome Petroleum Limited ("Dome") and Amoco Canada Petroleum Company Ltd. ("Amoco Canada"), as amended by agreements dated as of June 15, 1987, September 15, October 15 and November 19, 1987 (as so amended, the "Amended Arrangement Agreement").

FURTHER TAKE NOTICE THAT the Plan of Arrangement will affect the holders of the Eurodollar Debt (as defined in the Amended Arrangement Agreement) which debt is comprised of the following note and debenture issues:

- the notes comprising the outstanding principal amount of the U.S. \$75,000,000 Floating Rate Notes due 1988 of Dome constituted by a Trust Deed dated as of October 1, 1981 and made between Dome and The Law Debenture Corporation P.L.C. ("Law Debenture"), as supplemented and amended by a First Supplemental Trust Deed dated as of 1st September, 1986 and a Second Supplemental Trust Deed dated as of 28th October, 1986;
- the notes comprising the outstanding principal amount of the U.S. \$130,000,000 16 1/4% Fixed Rate Notes due 1988 of Dome constituted by a Trust Deed dated as of March 18, 1982 and made between Dome and Law Debenture, as supplemented and amended by a First Supplemental Trust Deed dated as of 1st September, 1986 and a Second Supplemental Trust Deed dated as of 28th October, 1986 (as so supplemented and amended, the "1989 Trust Deed");
- the notes comprising the outstanding principal amount of the U.S. \$50,000,000 Floating Rate Notes due 1989 of Dome constituted by the 1989 Trust Deed;
- the debentures comprising the outstanding principal amount of the U.S. \$50,000,000 10% Debentures due 1994 of Dome constituted by a Trust Deed dated as of the 15th day of July, 1979 and made between Dome and The Canada Trust Company, as supplemented and amended by a First Supplemental Trust Deed dated as of the 1st day of September, 1986 and a Second Supplemental Trust Deed dated as of October 28, 1986;
- the debentures comprising the outstanding principal amount of the U.S. \$50,000,000 13 1/4% Debentures due 1992 of Dome constituted by a Trust Deed dated as of the 1st day of May, 1980 and made between Dome and The Canada Trust Company, as supplemented and amended by a First Supplemental Trust Deed dated as of the 1st day of September, 1986 and a Second Supplemental Trust Deed dated as of October 28, 1986.

FURTHER TAKE NOTICE THAT an application will be made by Amoco Acquisition before the presiding Justice in Chambers at the Court House, 611 - 4th Street S.W., Calgary, Alberta, Canada on Tuesday the 26th day of January, 1988 at the hour of 10 o'clock in the forenoon, or so soon thereafter as counsel may be heard, for an Order or Orders providing the following:

- a declaration that:
 - the Plan of Arrangement, as contemplated in the Amended Arrangement Agreement and as described in the Affidavit of Amoco Acquisition, is an arrangement within the meaning of Section 185.1 of the Canada Business Corporations Act;
 - this Honourable Court has the jurisdiction to approve the Plan of Arrangement; and
 - the Final Order (as defined in the Amended Arrangement Agreement) shall, if granted, be binding on non-assenting shareholders of Dome and on non-assenting creditors of Dome and its subsidiaries;
- directions, if the Court sees fit, as to the:
 - classification of shareholders of Dome and creditors of Dome and its subsidiaries into classes of shareholders and creditors for the purpose of voting;
 - voting levels or methods required to approve the Plan of Arrangement by the shareholders of Dome and the creditors of Dome and its subsidiaries, so as to be binding on all shareholders of Dome and the creditors of Dome and its subsidiaries; and
 - calling, holding and conducting of such meetings as may be required by the Court;
- directions as to the method for future service of materials on interested persons; and
- such other and further orders and directions as this Honourable Court may deem just.

Any interested persons wishing to obtain copies of certain documents pertaining to the application, namely the Petition, the Order, the Notice of Motion and the Affidavit filed in support, may do so at the following offices on or after the 18th day of December, 1987:

The Law Debenture Corporation P.L.C.
Princes House
95 Gresham Street
London, England
EC4V 7LY

Any interested persons intending to make submissions on the return of the Motion shall file and serve a notice of their intention to appear, including their address for service, on Amoco Canada, Amoco Acquisition and Dome at least 15 days prior thereto and shall file and serve on Amoco Canada, Amoco Acquisition and Dome any material on which they intend to rely at least 7 days prior thereto. Service on Amoco Canada, Amoco Acquisition and Dome is to be effected by delivery at the addresses set forth below:

Messrs. Bennett Jones
3200 Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta
Canada
T2P 0X9
Attention: Mr. Anthony L. Friend
Solicitors for Dome

This Notice is being published pursuant to the Order of the Honourable Chief Justice of the Court of Queen's Bench of Alberta, Canada dated the 1st day of December, 1987.

The Canada Trust Company
505 - 3rd Street S.W.
3rd Floor, Corporate Trust Department
Calgary, Alberta
Canada
T2P 3E6

Messrs. Howard, Mackie
#700, 801 - 7th Avenue S.W.
Calgary, Alberta
Canada
T2P 3S4

Attention: Mr. Frank R. Foran
Solicitors for Amoco Canada and Amoco Acquisition

M & G shares soar as Ensign cuts stake

By Martin Dickson

Shares in M & G, the fund management group, soared yesterday on the news that Ensign Trust, the aggressive investment trust, had sold just over 4 per cent of M & G's equity at 230p a share - 44p a share above Wednesday's closing price. The identity of the purchaser was not known.

The sale of the 3.5m shares reduces the stake held by Ensign in M & G to 2.8m shares, 3.3 per cent of the equity. Ensign is controlled by the Merchant Navy Officers' Pension Fund.

M & G's shares closed last night at 235p, up 47p on the day. Shares in fund management groups were among the highest stock market losers before October's crash but have been among the worst performers since then.

M & G has undergone some major management changes following the retirement earlier this year of Mr David Hopkinson as managing director, to be followed by Mr Paddy Linsker, a stake of just over 32 per cent of the group is held by the Eames Fairbairn Charitable Trust.

Foreign & Colonial makes Japanese debut

By Steven Butler

Trading in the shares of the Foreign & Colonial Investment Trust were to have begun this morning on the Tokyo Stock Exchange, following approval by the exchange authorities.

Foreign & Colonial is the first investment trust, a quoted company that invests in other quoted companies, to be listed on the Tokyo Stock Exchange. The trust is a subsidiary of the common investment vehicles in Japan.

Mr Michael Hart, joint manager of the Trust, said that Yamachi Securities, which arranged the listing, had placed Foreign & Colonial shares with 2,400 Japanese investors after purchasing the shares in the London market. Mr Hart was expected to arrive in Tokyo on Monday.

Mr Hart said that a "road show" in Tokyo in October had produced considerable interest in the concept of an investment trust, which shares can generally be purchased at a discount to their net asset value, and that Foreign & Colonial hoped increased Japanese investment would result in a decrease in the discount.

Foreign & Colonial shares have traded recently at a discount of about 23 per cent to assets, compared to 14 per cent prior to the market crash in October. "It is very much an experiment," said Mr Hart. "Yamachi has assured us they will maintain a good after market and will encourage longer term investment."

Mr Hart said he was aware that some other companies that had issued new shares in Tokyo had seen the shares return to the home market. The Foreign & Colonial listing does not involve the issue of any new shares.

Aim Group up 80%

BY STEVEN BUTLER

Wheway, the engineer and forger, yesterday announced a 20 per cent rise in pre-tax profits to £2.37m in the year to October 3, along with a £15.9m rights issue aimed at financing the purchase of Interflita, an air filter maker, and Cudd Bentley, a firm of consulting engineers. Sales rose from £55.2m to £57.9m on restated comparisons.

Interflita is to be acquired for £5m, including £50,000 in cash, £50,000 by the issue of 2m new ordinary Wheway shares, and £5.35m in guaranteed loan stock. Initial consideration for Cudd Bentley is to be £7.5m, consisting of 25m new Wheway shares, and deferred consideration of up to £2.4m. Some 14.7m of the new shares are to be retained by the vendors.

Both deals contain provisions that ensure Wheway share price should Wheway share price average be below 30p in the five days after the shares are marked ex-rights. Wheway shares yesterday closed off 5p at 29p.

Shareholders will be offered a four-for-eleven rights issue at 27p per share, consisting of 16.5m new subscription shares with the balance consisting of shares issued to Cudd Bentley.

Mr Ted Jaynes, chairman, said that the heavy reorganisation

SAS plans to raise BCal offer

BY CLAY HARRIS

Scandinavian Airlines System is preparing to raise the price of its partial offer for British Caledonian Group, in an effort to win a renewed recommendation from the UK airline.

The Civil Aviation Authority, meanwhile, rejected BCal's request that it throw out or speed up its consideration of British Airways' application for the immediate revocation of BCal's route licence, based on the proposed role of SAS.

Another development, Lazard Brothers, advising BA's rival full bid, raised its holding in BCal to 8.2 per cent through the purchase of a 1.8 per cent stake owned by Scottish Provident Institution.

SAS's increased price, which is unlikely to be launched before next week, will apply only to its offer for existing shares. It will not affect the voting rights, the planned £50m capital injection by SAS and UK institutions, or any other part of the rescue package which gained conditional acceptance by the CAA last week.

The Scandinavian airline said last night that it remained in serious discussions with BCal and that a further statement would be made as soon as possible. SAS is known to consider next Wednesday as the effective deadline for any new move because of the imminent Christmas holidays.

The BCal board yesterday discussed both SAS's existing offer, of £20.44 per share for 26.14 per cent of the total, and BA's £27.72 bid which values BCal at £200m. It did not come to any firm conclusion.

BCal endorsed the SAS-led package before BA came up with its improved £200m cash offer. The CAA rejected all points of BCal's request over the revocation application. It said that it could not dispense with publication requirements or convene a short-notice hearing, which BCal had asked to be held no later than next Wednesday.

The CAA believed it likely that other holders of air transport

licences would wish to become parties to the case and regarded it as necessary that they had "a proper amount of time to prepare their evidence."

In a letter to BCal chairman Sir Adam Thomson, Mr Ray Colgate, group director of the CAA's economic regulation group, noted that even if the hearing were to be held next week, the CAA would not be able to consider its decision and publish it until the New Year.

"Parties to the case would then have the right of appeal to the Secretary of State. This too would take time to go through," Mr Colgate said.

Air Europe attacks MMC on BA ruling

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

Air Europe, the Independent Airlines Company, has accused the Monopolies and Mergers Commission of acting unlawfully and unfairly when it cleared a proposed merger of British Airways and British Caledonian.

The Commission alleged Air Europe had been persuaded that the merger would not be against the public interest by undertakings, offered in secret by BA, which it had no legal power to entertain and on which no interested party had been invited to comment.

Air Europe, which is owned by International Leisure Group, a

UK travel company, asked the court to quash, or declare void, the Commission's report on the proposed merger, published on November 4, and to order a re-investigation.

Mr Michael Beloff, QC, for Air Europe, said its application was supported by the Consumers' Association, the National Consumer Council, British Airlines Association and Monarch Island Airways, all of which had commented adversely on the proposed merger to the Commission.

The proposals the Commission had originally been invited to consider had differed materially from those on which it reported, Mr Beloff said.

The difference was made by BA's undertakings, without which it was clear that the Commission would have concluded that the merger would be against the public interest.

They decided that the undertakings defused the potential detriment," Mr Beloff said.

He said that there were three grounds for Air Europe's application. The first was that the Commission exceeded its legal powers because it had no power under the Fair Trading Act to entertain undertakings from BA in order to decide whether the merger would be against the public interest. The Act conferred exclusive powers on the Trade and Industry Secretary to request the Director Gen-

eral of Fair Trading to obtain appropriate undertakings with a view to removing or preventing adverse effects specified in the Commission's report.

The Commission acted unfairly in failing to consult or invite comments on the undertakings from, among others, Air Europe, which had a legitimate expectation that it would be consulted, having been invited to make representations earlier in the Commission's investigations.

In reaching its conclusion the Commission failed to invite the views of interested parties,

including Air Europe, the Civil Aviation Authority and the Department of Transport, on the undertakings. In considering public interest the Commission only solicited the views of BA, with its vested interest, Mr Beloff said.

Mr John Mummery, for the Commission, said there had been no point in going back to Air Europe for comments as it had already told the Commission that no undertakings could remedy the detriment to the public interest involved in the merger. The hearing continues today.

In brief

GENERAL ACCIDENT Fire and Life Assurance has purchased Thompsons of Derby, estate agents. Part of the consideration will be satisfied by the issue of 26,680 ordinary shares. Net assets of Thompsons amount to approximately £40,000.

GASKELL BROADLOOM has acquired Bamber, manufacturer of tufted carpet used mainly for production of carpet tiles, for initial consideration of £0.8m made up of £0.65m cash and issue to vendors of 107,143 shares. Further amounts up to £0.3m may be payable depending on Bamber's results for year to December 1988.

MICHAEL PETERS Group had experienced strong demand and

should show substantial progress in first half of current year chairman told the annual meeting. The group was carefully pursuing development plans, both organically and by acquisition.

EDENDERRY GROUP intended to diversify from its traditional shoe manufacturing and distribution activities, Mr Michael Ward, chairman, told the annual meeting. The group had cash resources which exceeded £3m and with no borrowings was in an excellent position to take the right opportunities.

DIPLOMA is seeking authority from its shareholders to purchase up to 14.99 per cent of its own ordinary shares. The group would then give notice of its intention to redeem its preference shares.

The advertisement appears as a matter of record only

DOWTY

Dowty Group PLC

£150,000,000

Multi-Option Facility

Arranged by

Samuel Montagu & Co. Limited

Underwritten by

Mellon Bank	Midland Bank plc
Barclays Bank PLC	Crédit Lyonnais
Credit Suisse	Den Danske Bank
The Fuji Bank, Limited	The Sanwa Bank, Limited
Westdeutsche Landesbank Girozentrale	Australia and New Zealand Banking Group Limited
The Sumitomo Bank, Limited	
Swingline Banks	
Mellon Bank	Midland Bank plc
Barclays Bank PLC	
Amsterdam-Rotterdam Bank N.V.	Baring Brothers & Co., Limited
Isituto Bancario San Paolo di Torino	Kleinwort Benson Limited
Lloyds Bank Plc	Samuel Montagu & Co. Limited
Morgan Grenfell & Co. Limited	Swiss Bank Corporation
The Tokai Bank, Limited	
Agent Bank	
Samuel Montagu & Co. Limited	

November 1987

Wheway £16m rights

BY STEVEN BUTLER

Wheway, the engineer and forger, yesterday announced a 20 per cent rise in pre-tax profits to £2.37m in the year to October 3, along with a £15.9m rights issue aimed at financing the purchase of Interflita, an air filter maker, and Cudd Bentley, a firm of consulting engineers. Sales rose from £55.2m to £57.9m on restated comparisons.

Interflita is to be acquired for £5m, including £50,000 in cash, £50,000 by the issue of 2m new ordinary Wheway shares, and £5.35m in guaranteed loan stock. Initial consideration for Cudd Bentley is to be £7.5m, consisting of 25m new Wheway shares, and deferred consideration of up to £2.4m. Some 14.7m of the new shares are to be retained by the vendors.

Both deals contain provisions that ensure Wheway share price should Wheway share price average be below 30p in the five days after the shares are marked ex-rights. Wheway shares yesterday closed off 5p at 29p.

Shareholders will be offered a four-for-eleven rights issue at 27p per share, consisting of 16.5m new subscription shares with the balance consisting of shares issued to Cudd Bentley.

Mr Ted Jaynes, chairman, said that the heavy reorganisation

costs associated with the Wheway's move into higher quality markets were a new largely behind, and cash flow would improve significantly in the current year.

Earnings per share in the group rose from 1.99p to 2.32p, and the full year dividend came to 0.85p, up from 0.50p in the previous year.

U.S. \$125,000,000

Northeast Savings, F.A.

Collateralized Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from December 17, 1987 to December 19, 1988 the Notes will carry an interest rate of 8 1/4% per annum. The interest payable on the relevant interest payment date, December 19, 1988 will be U.S. \$888.06 per U.S. \$10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

December 18, 1987

Toray Industries, Inc.

(formerly Toyo Rayon Kabushiki Kaisha)

S.G. Warburg & Co. Ltd. announce that a dividend of Yen 3.00 per share has been paid to shareholders on the books of the above Company as at 30th September, 1987 in respect of the six month period ended on that date.

Holders of Bearer Depositary Receipts issued by S.G. Warburg & Co. Ltd. may present Coupon No. 10 for payment at:

S.G. Warburg & Co. Ltd.
Paying Agency, 6th Floor,
1 Finsbury Avenue,
London EC2M 2PA

Payment will be subject to deduction of Japanese Withholding Tax and in London, United Kingdom Tax (where applicable) at the appropriate rates. Details of tax deduction can be obtained from the Paying Agents.

18th December, 1987

Reorganisation benefits start as Macarthy reaches £5.6m

Copies of the 1987 Annual Report and Accounts may be obtained from the Secretary, The Royal Bank of Scotland Group plc, 36 St Andrew Square, Edinburgh EH2 2YB.

COMMODITIES AND AGRICULTURE

Supply fears drive palm oil market 30% higher

BY WONG SUI-LING IN KUALA LUMPUR

PALM OIL prices on the Kuala Lumpur Commodities Exchange have shot up by more than 30 per cent in the past six weeks as fears of a sharp drop in Malaysian production and climatic disasters in India and the Philippines have sent traders scurrying to cover short positions.

Crude palm oil prices yesterday broke through the 1,000 ringgit (\$220) barrier for the first time in 28 months, with February CPO closing at 1,011 ringgit a tonne and March at 1,014 ringgit in active trading. A total of 1,641 lots of 25 tonnes each was traded.

Malaysia's palm oil production peaked at 551,000 tonnes in September and the market was caught by surprise when October output fell by 68,000 tonnes to 483,000 tonnes.

November and December production figures are expected to be well below earlier projections as major palm oil growing areas in Johore, Pahang and Terengganu states have been hit by floods.

The industry is revising its earlier forecast of the country's 1987 palm oil production from 4.7m tonnes to 4.6m tonnes, with

some operators forecasting a figure as low as 4.3m tonnes. Malaysian growers attribute the sharp drop in output to the effects of low fertiliser input early last year, when prices plunged to 430 ringgit a tonne, below the average Malaysian production cost of 500 ringgit.

KLCE traders expect CPO prices to remain steady until January next year, when production should recover. A factor in the strong price surge is heavy buying by India.

"The Indian Government has been playing a clever game, successfully covering up the extent of the drought earlier this year. In a way, the current bullish market is a delayed reaction to the Indian drought," commented one trader, who said the Government had been buying 50,000 to 60,000 tonnes of palm oil a month since November.

The Soviet Union has also taken almost 1m tonnes of soyabean and soyamail from the US and is reported to be looking for another 700,000 tonnes of soyabean from South America.

In the Philippines two typhoons, last month and this week, were reported to have hit

the coconut growing areas badly, and there are fears of further tropical storms. The Philippines coconut authority expects 1988 production to fall by more than 18 per cent to 2.2m tonnes.

The high trading activity on the KLCE, while reflecting the shortage of the commodity, is viewed by the authorities as further evidence of the recovery of confidence in the exchange since it was reopened in October 1986, after major statutory and organisational changes to cope with default situations.

The exchange is the only one in the world dealing with CPO futures and is being used by other markets as a reference for CPO prices.

CPO transactions have been growing steadily with the average of 439 lots traded in August, 579 lots in September and October, and 698 lots daily in November.

A record of 1,691 lots was traded last Tuesday.

Several commission houses which shifted their activity to the Tokyo Commodity Exchange when the KLCE was suspended in March 1984, recently returned to the KLCE.

Oil prices under renewed pressure

By Richard Johns

THE ORGANISATION OF Petroleum Exporting Countries' efforts to maintain oil prices around a reference of \$18 per barrel under renewed pressure as spot rates plunged again yesterday.

Brent Blend, the key North Sea crude, fell by a \$1 per barrel to \$15.15 during a day of frenzied trading. One transaction was reported by a leading trading company at only \$14.40.

The market subsequently staged a technical recovery but by the end of the day's trading had fallen much faster and further than most analysts had expected in the immediate wake of the Opec conference which ended in Vienna on Monday night.

On the New York Mercantile Exchange in morning trading prices recovered to \$15.44 having fallen to \$14.90 early in the day.

Venezuela lowered rates for its very heavy crudes, which are not covered by Opec pricing agreements, by \$2.25 per barrel. The move in response to lower fuel oil prices could well have been made before the Opec meeting but was apparently delayed until after it, out of concern about sustaining market confidence during the conference, which reaffirmed a ceiling on collective output of 15.06m barrels a day for 15 of the 13 members excluding Iraq.

In the US Shell Oil announced that it was cutting rates for all its Texas and Louisiana crudes by \$1 per barrel.

Mr Michael J. Lari of Kleinwort, Greifson suggested that a basic reason for the extent of the fall had been the failure on the part of Saudi Arabia to give a clear signal about its defence of an oil price ceiling.

He predicted that Opec members would soon come under heavy pressure to offer discounts and probably had prepared contingency plans to do so.

Mr David Gray of James Capel predicted "bleak prospects" for Opec in the February-March-April period.

US offers sugar re-export quota

PHILIPPINE sugar industry officials said the gloom caused by Tuesday's announcement of a 23 per cent cut in the country's 1988 US sugar import quota had been considerably lifted by news that House and Senate negotiators have tentatively approved a sugar re-export programme for Caribbean countries and the Philippines.

Under the program, Caribbean nations would be able to ship 200,000 short tons and the Philippines up to 110,000 tons of raw sugar to the US outside the sugar quota. The sugar would be refined and re-exported on to world markets.

There is no excess at Vancouver to take up the slack. Negotiations are scheduled to resume today under the auspices of a mediator from five Indonesian companies, with the Indonesian side reportedly to a terminal official, picket lines remain in place.

The problem comes at a time when the Canadian share of various export markets is under intensifying pressure because of world oversupply and heavily subsidised sales by its major competitors.

Noranda to ration copper supplies

BY KENNETH GOODING, MINING CORRESPONDENT

NORANDA, the big Canadian natural resources group, has told customers in the US and Europe that they can have only about one quarter of the high-grade copper it contracted to supply in January and February next year.

The group's difficulties illustrate the extreme shortage of high-grade copper for nearby delivery, a phenomenon which has pushed the cash price of Grade A material on the London Metal Exchange to record heights in recent weeks and forced the backwordward (the premium for cash metal over the forward price) to unprecedented levels.

This follows four years when copper demand has outstripped supply and stocks have been whittled away to the lowest point since 1975.

Mr Robin Bhar, analyst at Rudolph Wolff, the London-based metal trader, says that, if present trends continue, worldwide copper stocks will be at dangerously low levels of about 570,000 tonnes by the year-end, equivalent to only four-and-a-half weeks consumption.

Mr John Hampton, Noranda's vice president for copper sales, said yesterday that his company had reached the point of declaring force majeure (the clause in

a metal supply contract which allows the seller not to deliver or the buyer not to take delivery because of events beyond his control) but customers indicated they would prefer to receive at least some of the copper they had expected.

"Most of them would prefer us to ship late rather than not at all," he said. "We have told them that no one will receive their full contractual quotas until March."

Mr Hampton made it clear that Canadian customers will be supplied in full, as will the Hudson Bay and Falconbridge companies, some of whose copper Noranda refines.

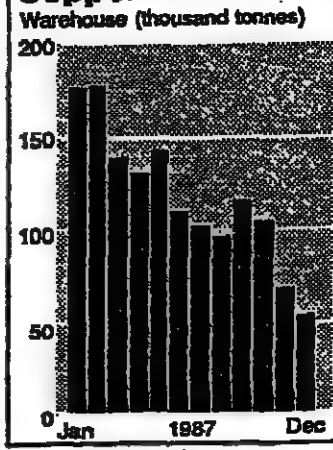
Noranda is not short of stock but its smelter in Quebec has suffered a series of unexpected setbacks this year and by the end of November was late in shipping 6,000 tonnes of high-grade copper.

The problems included a strike at the smelter early in the year followed by hot summer when the facility was closed for environmental reasons more often than usual. Later a technical problem developed in a reactor vessel which caused a further 15-day closure.

On top of these events, the Canadian rail strike disrupted deliveries of stock for the

LME Copper Stocks

Warehouse (thousand tonnes)



smelter. In a normal year the Quebec refinery produces about 350,000 tonnes of refined copper, of which Noranda itself takes 60 per cent.

This is a relatively modest amount compared with western consumption of 7.5m tonnes of copper a year and the 6,000 tonnes shortfall on contracts represents only seven or eight working days output at the smelter.

Traders emphasise that the current shortage is only of high-grade copper and suggest it has been caused by a lack of smelting capacity. "Even when demand is as high as it is today, pollution control regulations do not encourage companies to run their smelters flat-out," said one.

Brass mills and alloy makers which use lower-grade copper have plenty of stock but traders suggest many rod mills will extend their Christmas holidays because of the shortage of high-grade material.

So far there has been only one report of an unplanned closure of a semi-fabrication plant for lack of feed. Phelps Dodge, the biggest US copper producer, shut a continuous cast rod mill at Norwalk, Connecticut, because of late delivery of feed stock from Canada.

Traders suggest, however, that several small copper semi-fabrication plants in the US have had to interrupt operations because of stock shortages.

Analysts believe the supply situation will not ease until the second half of next year when a surplus of production over consumption - and possibly a recessionary slow-down in demand - should allow some stock rebuilding to begin.

Indonesia studies gold loan plan to ease miners' problems

BY JOHN MURRAY BROWN IN JAKARTA

INDONESIA is considering the use of gold loans to help foreign companies involved in exploration to overcome serious cash flow difficulties caused by the fall in world stock markets.

Bank Indonesia, the country's central bank, is now studying a plan whereby commercial banks would lend gold to mining companies to be repaid once for output of future production.

Mr Soetoro Sigit, the director general of mines at the Ministry of Energy, said the Government was "watching whether there is a decline in spending or even the termination" of some contracts, following the stock market collapse.

Indonesia, where gold production is currently put at around 3 tonnes a year, has seen a rush of foreign interest, with 77 joint

venture agreements signed in the last 13 months. These include BP Minerals of the UK, GRA, the large Australian mining house, and Newmont Mining of the US.

Kalimantan, seen as the best prospect, has now been closed to new exploration. Indeed such has been the local enthusiasm that the Government has now had to raise from 2m rupiahs (\$800) to Rp60m the bank collateral for Indonesian companies buying mining rights. This follows reports that large numbers of local firms were selling out to foreign joint ventures.

The stock market crash represents a far greater setback, however, affecting as it does the small and medium-sized companies, hitherto the driving force behind Indonesia's gold rush.

These companies previously relied almost totally on the stock market to raise money for exploration capital.

Pelsart Resources and Jason Mining, two Australian concerns jointly developing the Kesonggan gold mine in Kalimantan, where commercial production is expected early next year, have already made a formal request to the investment department of the central bank to raise a gold loan.

Pelsart, which has five Indonesian gold contracts, is the mineral arm of the Pary Corporation, the Perth-based conglomerate and one of the Australian companies worst hit by the market's slide. Pary shares slipped recently to around \$5 Australian cents from a high of \$44.55 earlier in the year.

There is no excess at Vancouver to take up the slack. Negotiations are scheduled to resume today under the auspices of a mediator from five Indonesian companies, with the Indonesian side reportedly to a terminal official, picket lines remain in place.

The problem comes at a time when the Canadian share of various export markets is under intensifying pressure because of world oversupply and heavily subsidised sales by its major competitors.

Strike paralyses Canadian grain port

BY DAVID OWEN IN TORONTO

A WEEK-OLD strike by a mere 60 members of the Canadian Grainworkers Union at the highly-mechanised Pacific coast terminal of Prince Rupert is causing extreme concern to hard-pressed domestic grain exporters.

The dispute has brought the terminal, which normally handles some 15 per cent of Canadian grain exports, to a complete standstill. Prior to the stoppage, it was handling on average 90,000 tonnes out of total Cana-

dian weekly exports of approximately 600,000 tonnes.

The timing of the strike - called principally over manning levels - is particularly unfortunate for exporters, with west coast ports operating at peak capacity and the Great Lakes system poised to shut down for winter.

"We had been pushing grain at maximum levels through west coast ports," said Mr Brian Stacey, the country's only wheat

exporter. "There is no excess at Vancouver to take up the slack."

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Lead and zinc prices forecast to decline

BY KENNETH GOODING

THERE ARE no longer strong fundamental reasons for the price of lead to move higher, the London Metals Exchange says in its latest report.

At the same time the price of zinc is expected to drift downwards in the early part of next year it suggests.

The report predicts that there will be "some improvement" in lead production levels for 1988-89 and this, coupled with relatively weak demand, should push the market back into balance and then oversupply.

Stock levels are likely to remain low by historical standards for some time, however, as the downward pressure on London Metal

Exchange prices from current levels of 30 cents a lb should be limited.

Current prices should be enough to enable stocks to be built gradually in the coming months but the present position is tight and inventories are likely to remain low throughout 1988, says Mr Stephen Briggs, Shearson's lead analyst.

There is likely to be some weakness in the LME price in the first quarter of 1988 and a more sustained weakness might be seen at the end of next year and into 1989.

"Our forecast of 37 cents a lb as an average for next year represents a modest decline from current price levels but is more or less the same as the 1987 average", Mr Briggs adds.

Discussing zinc, Mr Neil Burton predicts the market will return to surplus next year, albeit at small levels, following six years of deficit.

On the demand side the analyst forecasts consumption will continue to "grow modestly" in 1988 to 4.57m tonnes from 4.42m in 1987.

Supply, however, will be 5m tonnes for the first time, leaving the market oversupplied by an estimated 30,000 tonnes.

"Consequently we believe that the LME price will begin to drift downwards in the early part of next year from their recent level of \$860-\$875 a tonne, basis three months."

"This would certainly imply that the European Producer Price, currently at \$860 a tonne, will come under pressure. One factor that should limit the fall of dollar prices is the likely weakness of the US currency throughout next year (our average forecast is \$1.81/\$1.85)."

Shearson says its "best estimate" of the average price for zinc next year is \$810 a tonne. Mr Burton expects prices to spend much of 1988 in the \$770-\$850 a tonne range with prices ending next year on a weaker note than on which they will start it.

"Annual Review of the World Lead and Zinc Industries 1987," from Shearson, Lehman, 1 Broadgate, London EC3M 3TH. \$100 or \$150.

Tin supply deficit reduced

BY KENNETH GOODING

LESS PRIMARY tin was produced this year than consumed in the western world this year but the deficit in supply was lower than in 1986 because of increased imports from China, according to the International Tin Council.

Under the program, Caribbean nations would be able to ship 200,000 short tons and the Philippines up to 110,000 tons of raw sugar to the US outside the sugar quota. The sugar would be refined and re-exported on to world markets.

In 1986 the supply deficit was offset by a reduction in the huge stocks overhanging the market since the crisis in October 1985 and by the sale of 5,500

tonnes by the US General Services Administration.

The council points out that the GSA sold tin again during 1987 but gives no estimate of the total.

It predicts that in the first quarter of next year there could be another 8,500 tonnes deficit in primary metal production compared with consumption, about the same as in the first three months of 1987.

Mine output of tin in concentrated form will be 3,200 tonnes to 3,500 tonnes compared with 1986 because low prices caused mines to close, the council suggests. Export restrictions by the Association of Tin Producing Countries might also have had an impact.

Western world consumption of tin metal in 1987 is put at 165,000 tonnes compared with 166,100 last year.

Consumption in the first quarter of 1988 is forecast to be about 41,700 tonnes which would be about 5,800 tonnes more than production and 1,000 tonnes from the socialist countries combined.

Nickel stocks fall sharply

STOCKS OF nickel held by non-Socialist world producers fell sharply during the first 10 months of 1987 and by the end of October totalled 77,300 tonnes compared with 99,500 tonnes at the beginning of January, World Bureau of Metal Statistics figures show, reports Reuters.

Production of 431,800 tonnes during the January to October period was exceeded by deliveries of 453,800 tonnes.

The fall in class one nickel stocks was much less than that shown by class two stocks.

WORLD COMMODITIES PRICES

LONDON MARKETS

A WARNING that drought losses could result in Indonesia having to import more than 500,000 tonnes of sugar next year triggered a sharp rise on the London futures market, where nearby rates gained \$8 or \$9 a tonne to reach 19-month highs. Dealers said heavy purchases were also expected from the Soviet Union and the Indian sub-continent, among others, in the new year. On the London Metal Exchange aluminium prices maintained their bull trend with the cash standard grade position climbing another \$25.50 to \$1,675.50 a tonne. The stock the rise on the week to \$1,722.50 a tonne. Dealers said trading conditions were quite, however, and mainly linked to covering operations against potential options declarations. Concern over nearby supply tightness was evident on the copper market, with the cash premium over three months metal widening from \$205 to \$227.50 a tonne.

SPOT MARKETS

Crude oil (per barrel FOB Japan) + or -
Dubai \$13.85-14.05 -1.05
Brent \$15.00-15.15 -0.25
WTI \$14.50-14.65 -0.10
Oil products (PWT prompt delivery CFR) + or -
Premium Gasoline \$167.170 -3.50
Gas Oil \$141.143 -10.00
Heavy Fuel Oil \$84.65 -8.00
Naphtha \$133.138 -8.50
Other + or -

Gold (per troy oz) \$478.75 -8
Silver (per troy oz) \$7.70 -11
Platinum (per troy oz) \$489.00 -2.40
Palladium (per troy oz) \$117.75 -0.50

Aluminium (fine market) \$1,670 -2.80
Copper (US Producer) \$134.140 -0.687
Lead (US Producer) \$42 -1
Nickel (fine market) \$342 -15
Tin (European free market) \$2,800 -1
Tin (Kuala Lumpur market) \$2,700 -1
Tin (New York) \$319.500 -0.50
Zinc (Euro. Prod. West) \$24.375 -0.50
Zinc (US Prime Western) \$24.375 -0.50

Cattle (live weight) \$10.250 -5.00
Sheep (live weight) \$12.430 -16.12
Pigs (live weight) \$73.300 -1.15
London daily sugar (raw) \$215.200 +2.80
London daily sugar (white) \$221.400 +1.90
Tate and Lyle export price \$223.000 +0.50

Barley (English feed) \$108.500
Maize (US No. 3 yellow) \$134.500
Wheat (US Dark Northern) \$133.500

Rubber (smoke) \$2.000 -0.50
Rubber (Latex) \$4.500 -0.25
Rubber (Febe) \$4.500 -0.25
Rubber (CLS No. 1) \$4.500 -0.25

Coconut oil (Philippines) \$530.000 -10.00
Palm oil (Malaysia) \$438.000 -17.50
Cocoa (Philippines) \$370.000
Soyabean oil (US) \$181.000
Cotton "A" index \$74.500 +1.00
Wooltops (44s Super) \$80 -0.50

2-tonnes unless otherwise stated. p-prompt, c-cash, f-freight, w-delivered, v-van/ship. a-Jan, f-Feb, M-Mar, A-Apr, M-May, J-Jun, J-Jul, S-Sep, O-Oct, N-Nov, D-Dec. London physical market. S-GF Rotterdam. S-Bulon market close. S-Malaysia/Singapore. C=1kg.

COCOA \$/tonne

Date	Close	Previous	High/Low
Dec 1084	1030	1026	1022
Nov 1063	1064	1054	1050
May 1073	1078	1075	1071
Nov 1082	1083	1083	1083
Sep 1112	1114	1112	1110
Dec 1137	1138	1138	1138
Nov 1232	1238	1238	1238

Turnover: 2058 (2323) lots of 10 tonnes
ICDO indicator prices (cents per lb). Daily price for December 16: 1256.55 (1343.00) 10 day average for December 17: 1271.28 (1377.18)

COFFEE \$/tonne

Date	Close	Previous	High/Low
Jan 1212	1206	1210	1197
Jan 1237	1230	1238	1222
May 1255	1252	1252	1251
Jul 1272	1270	1272	1258
Sep 1280	1279	1280	1270
Nov 1322	1328	1328	1328
Jan 1320	1320	1320	1320

Turnover: 3747 (2317) lots of 5 tonnes
ICDO indicator prices (cents per lb). Daily price for December 16: 1256.55 (1343.00) 10 day average for December 17: 1271.28 (1377.18)

SUGAR \$/tonne

Date	Close	Previous	High/Low
Nov 198.00	198.00	198.00	198.00
May 198.00	198.00	198.00	198.00
Oct 198.00	198.00	198.00	198.00
Nov 198.00	198.00	198.00	198.00
May 198.00	198.00	198.00	198.00
Oct 198.00	198.00	198.00	198.00
Nov 198.00	198.00	198.00	198.00

Turnover: 6118 (1988) lots of 50 tonnes
White 2200 (2587)
Pine-White (FFP per tonne) Mar 1248, May 1220, Aug 1225, Oct 1222, Dec 1200, Mar 1240.

GAS OIL \$/tonne

Date	Close	Previous	High/Low
Jan 140.00	140.00	140.00	140.00
Feb 138.25	140.50	142.75	140.00
Mar 132.50	143.25	138.25	130.00
Apr 130.25	143.00	135.50	130.00
May 130.50	143.00	134.50	130.00
Jun 131.00	138.00	138.00	130.00
Jul 131.00	141.00	134.00	130.00

Turnover: 16284 (8884) lots of 100 tonnes

GRAINS \$/tonne

Date	Close	Previous	High/Low
Jan 114.45	114.50	114.60	114.40
Mar 115.45	115.55	115.60	115.40
May 117.75	117.85	117.90	117.70
Jul 120.40	120.50	120.60	120

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Continued on next page

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LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Contd

FOREIGN BONDS & RAILS

1987	Stock	Price	+/-	Yield	1987	Stock	Price	+/-	Yield	1987	Stock	Price	+/-	Yield
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
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1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
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1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987	1987
1987	1987	1987	1987	1987	1987	1987								

134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587
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134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317																																																																																																																																																																																																																																																																														

LONDON SHARE SERVICE

INSURANCES - Contd

Stock	Price	Change
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10
Avon Insurance	12.50	+0.10

LEISURE

Stock	Price	Change
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10
Avon Leisure	12.50	+0.10

PAPER, PRINTING, ADVERTISING - Contd

Stock	Price	Change
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10

PROPERTY

Stock	Price	Change
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10
Avon Property	12.50	+0.10

TEXTILES - Contd

Stock	Price	Change
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10

TOBACCO

Stock	Price	Change
Avon Tobacco	12.50	+0.10

TRUSTS, FINANCE, LAND

Stock	Price	Change
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10

TRUSTS, FINANCE, LAND - Contd

Stock	Price	Change
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10
Avon Trusts	12.50	+0.10

OIL AND GAS - Contd

Stock	Price	Change
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10
Avon Oil	12.50	+0.10

MINES - Contd

Stock	Price	Change
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10

OVERSEAS TRADERS

Stock	Price	Change
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10
Avon Overseas	12.50	+0.10

PLANTATIONS

Stock	Price	Change
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10
Avon Plantations	12.50	+0.10

MINES

Stock	Price	Change
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10
Avon Mines	12.50	+0.10

Central Africa

Stock	Price	Change
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10

Demand and Production

Stock	Price	Change
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10

Central Africa

Stock	Price	Change
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10

Demand and Production

Stock	Price	Change
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10
Avon Demand	12.50	+0.10

Central Africa

Stock	Price	Change
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10
Avon Central	12.50	+0.10

THIRD MARKET

Stock	Price	Change
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10
Avon Third	12.50	+0.10

NOTES

Notes on the London Stock Exchange Report Page. The following information is provided for the benefit of investors. It is based on the latest available data and is subject to change without notice. The information is provided for informational purposes only and does not constitute an offer or recommendation to buy or sell any securities. Investors should consult their own financial advisers for more information.

REGIONAL & IRISH STOCKS

Stock	Price	Change
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10
Avon Regional	12.50	+0.10

TRADITIONAL OPTIONS

Stock	Price	Change
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10
Avon Options	12.50	+0.10

A selection of options traded is given on the

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MOTORS, AIRCRAFT TRADES

Stock	Price	Change
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10
Avon Motors	12.50	+0.10

NEWSPAPERS, PUBLISHERS

Stock	Price	Change
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10
Avon Newspapers	12.50	+0.10

PAPER, PRINTING, ADVERTISING

Stock	Price	Change
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10
Avon Paper	12.50	+0.10

SHIPPING

Stock	Price	Change
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10
Avon Shipping	12.50	+0.10

SHOES AND LEATHER

Stock	Price	Change
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10
Avon Shoes	12.50	+0.10

SOUTH AFRICANS

Stock	Price	Change
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10
Avon South	12.50	+0.10

TEXTILES

Stock	Price	Change
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10
Avon Textiles	12.50	+0.10

OIL AND GAS

92	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
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CANADA

CANADA

Sales	Stock	High	Low	Open	Close	Day	Sales	Stock	High	Low	Open	Close	Day	Sales	Stock	High	Low	Open	Close	Day	
TORONTO																					
Closing prices December 17																					
16732	AMCA Inc.	39	8 1/2	8 1/2	+	-	21171	Carnie A	189	190	190	+18	71268	Lehigh B I	317 1/4	195	195	-	1		
13275	Abnati	32 1/2	25 1/2	25 1/2	-	-	11310	Can Gas	244	244	244	+	10400	Laidlaw Inc	40	40	40	-	1		
23103	Agriac E	24 1/2	25 1/2	25 1/2	+	-	350	Can Glass	220	220	220	+	14750	Loblave Co	812	118	118	+	1		
40724	Alcan	81 1/2	122	123	+	+	260	CTL Bank	50	50	50	+	3300	Luminas	55	48	5	-	1		
1000	Algonia St	516	516	516	+	+	11221	Can Pac	510 1/2	10 1/2	10 1/2	+	34450	Mack H X	519	126	126	+	1		
13475	Alto I I	7 1/2	7 1/2	7 1/2	+	-	2100	Canby	317 1/4	17 1/4	17 1/4	+	1000	Meln H Y	118	174	174	+	1		
500	Alto II	8 1/2	8 1/2	8 1/2	+	-	71450	Can Ltd	89	8 1/2	8 1/2	+	24750	Meln H Y	118	174	174	+	1		
1700	B Sugar	32 1/2	25 1/2	25 1/2	+	-	11350	Crown	510 1/4	84	84	+	84750	Magna A	511 1/4	11 1/4	11 1/4	+	1		
1600	BGR A	51 1/4	51 1/4	51 1/4	+	-	20650	Crown A	4 45	22	22	+	222	Martine I	174	144	144	+	1		
140723	BC Mont	32 1/2	25 1/2	25 1/2	+	-	8700	Dixie A	150	150	150	+	13661	Noron and	516	142	142	+	1		
150746	BC Nelson	51 1/4	51 1/4	51 1/4	+	-	12941	Denison A	35	480	480	+	10	8836	Mitri Corp	305	320	305	+	1	
107744	BC Vico	51 1/4	51 1/4	51 1/4	+	-	24540	Denison B	480	480	480	+	10	8836	Mitri Corp	305	320	305	+	1	
4400	Brakline	146	146	146	+	-	2700	Dickman A	3 1/4	94	94	+	13661	Noron and	516	142	142	+	1		
14058	Brascan A	32 1/2	25 1/2	25 1/2	+	-	11700	Dickman B	51 1/2	11	11	+	13661	Noron and	516	142	142	+	1		
11825	Brivator	45	47	47	+	-	15675	Dome Plate	81	76	76	-	11944	Nl Br Can	511	11 1/4	11 1/4	+	1		
2200	Brucell	51 1/4	51 1/4	51 1/4	+	-	8236	D Tende	317 1/4	17 1/4	17 1/4	+	402	Nl Br Can	511	11 1/4	11 1/4	+	1		
127288	CC Pop	10 1/2	10 1/2	10 1/2	+	-	212	Dontch	325	25	25	+	118711	Noranda	52 1/4	29	29	+	1		
8655	CC Pop	51 1/4	51 1/4	51 1/4	+	-	5800	Du Pont	527 1/4	27 1/4	27 1/4	+	12861	Noranda	52 1/4	29	29	+	1		
300	CC Pop	51 1/4	51 1/4	51 1/4	+	-	12270	Echo Bay	300	281	281	+	13661	Noron and	516	142	142	+	1		
300	Brusack	51 1/4	51 1/4	51 1/4	+	-	300	Echo Bay	300	281	281	+	13661	Noron and	516	142	142	+	1		
10700	CCZ B I	57 1/4	7 1/4	7 1/4	+	-	21122	End Ind	18 1/2	15 1/2	15 1/2	+	14928	Nl West	22	20	20	-	2		
17000	CL	32 1/2	25 1/2	25 1/2	+	-	14500	End Ind	11 1/4	11 1/4	11 1/4	+	3000	Nordberg	7	7	7	+	1		
11425	Camp Res	185	185	185	+	-	850	PCity Fin	519	25	25	+	10900	Oakwood	35	5 1/4	5 1/4	+	1		
11402	Camp Bousp	217 1/4	17 1/4	17 1/4	+	-	970	PCity Fint	512	12	12	+	11707	Oakwood A	380	50	54	-	25		
45837	CCM ac I	516 1/2	516 1/2	516 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	300	Omaha Hyd A	35	476	476	+	1		
45837	CCM ac I	516 1/2	516 1/2	516 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
14944	C Nor West	185 1/2	185 1/2	185 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4	+	11707	Oakwood A	380	50	54	-	25		
300	C Padam	32 1/2	25 1/2	25 1/2	+	-	100	PCL Int	81 1/4	11 1/4	11 1/4										

Nasdaq national market, closing prices

OVER-THE-COUNTER

Nasdaq market, closing prices

Stock	Sales	High	Low	Last	Chg	Stock	Sales	High	Low	Last	Chg	Stock	Sales	High	Low	Last	Chg	Stock	Sales	High	Low	Last	Chg		
Continued From Page 39																									
Overseas 30	10	82	144	134	144	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
PAGE	500	44	44	44	44	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
PAC	35,176	31	31	31	31	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 1.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 4.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 1.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 4.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 1.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
Pacific 4.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
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Pacific 4.00	2,225	104	104	104	104	+	+					USREP	30	7,336	21	209	209	+	USREP	30	7,336	21	209	209	+
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Pacific 1.00																									

TOKYO - Most Active Stocks
Thursday December 17 1987

Indices

	Dec. 17	Dec. 18	Dec. 19	Dec. 24	1967	
					High	Low
_____	1250.6	1241.1	1248.7	1232.4	2305.9 (22/9)	1151.0 (21/11)
_____	755.6	748.2	743.7	738.8	1482.4 (21/8)	206.9 (21/11)
_____ 040	180.21	179.95	178.85	177.27	232.19 (22/9)	172.85 (21/11)
_____	3525.8	3540.5	3526.6	3511.2	5412.2 (33/8)	3511.3 (24/12)
_____ 030	64	165.02	164.94	164.11	218.76 (27/8)	179.60 (28/11)
_____	546.5	546.7	549.3	551.1	679.1 (30/8)	425.2 (25/1)
_____ 020	286.3	287.8	282.8	273.3	460.4 (28/8)	270.3 (31/11)
_____ 060	74	74.4	74.3	72.1	117.2 (26/8)	69.4 (30/12)
_____ 020	138.51	141.35	132.95	138.67	676.50 (6/1)	480.13 (20/11)
_____ 030	145.87	139.67	137.78	132.65	680.31 (17/8)	122.9 (21/11)
_____ 0740	214.23	214.51	208.02	204.62	3499.73 (11/1)	1894.94 (7/12)
_____ 020	508.23	501.22	493.80	488.04	767.34 (30/8)	476.27 (20/11)
_____ 060	2209.65	2281.97	2246.73	2236.28	2646.43 (14/10)	1864.00 (13/11)
_____ 0700	1814.28	1837.05	1844.55	1835.59	2256.56 (11/8)	1557.46 (13/11)
_____ 0700	204.2	212.5	208.3	204.3	334.1 (54/8)	198.2 (20/11)
_____ 0700	162.2	162.6	157.4	154.5	220.8 (13/8)	147.5 (28/11)
_____ 020	324.32	327.13	324.52	324.34	572.00 (21/9)	307.46 (20/11)
_____ (21266)	768.6	763.2	750.5	741.0	1305.4 (26/8)	700.4 (7/12)
_____ 070	64	64	1797.0	1842.0	2499.0 (30/8)	1446.0 (5/11)
_____	225.83	214.48	214.49	213.85	226.0 (16/10)	1401.08 (21/12)
_____ 560	2180.20	2135.50	2138.50	2111.90	3550.40 (20/11)	2088.50 (10/11)

2525	474.4	472.1	466.8	462.2	729.7 (5/10)	450.9 (10/11)
1701	(a)	407.8	404.5	403.7	495.9 (27/0)	361.3 (2/3)

Indices are 100 except Brazil: SE - 1,000 JSE Gold - 255.7 JSE Industrials - 1,000. (a) All Ordinary and Metals - 500; (c) Closed (w) Unavailable.

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Continued on Page 39

AMEX COMPOSITE CLOSING PRICES

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Continued on Page 37

AMERICA

Dow slumps as market rally falters

Wall Street

THE EQUITY market's 200 point rally in the last two weeks faltered yesterday as predictable profit-taking gave way to more substantial selling as the dollar hit new lows, writes Janet Bush in New York.

The Dow Jones Industrial Average closed 50.07 points down at 1,924.40, slumping in afternoon trading to end at session lows.

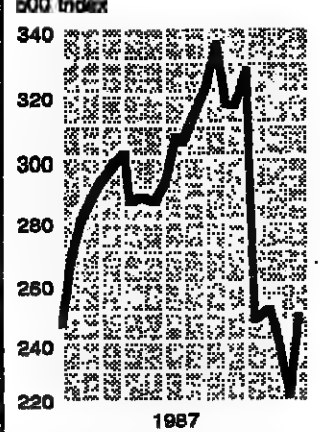
The market had looked indecisive during the morning session, quite natural after the substantial rally since early this month. While most analysts felt the index could rise further before the end of the year, they saw a period of consolidation first.

However, attention on blue chip issues which had performed strongly earlier this week, coupled with weakness in the oil sector as oil prices went into freefall, accelerated as the dollar slumped. In late New York trading the dollar was quoted at a post-war low of ¥125.85 and DM1.6140.

The dollar has been quietly drifting lower most of this week, but the slide had been masked to some extent as focus was trained on the collapse in crude oil prices and the accompanying dampening effect on US and world inflation.

However, attention shifted returned to the foreign exchange market and overrode the positive impact of falling commodity prices. The US Treasury bond market gave an opening bid of as much as 1½ point to close around ½ point below Wednesday's closing levels.

Standard & Poors



The positive start was attributed to sharp declines in key commodities. In hectic trading on the New York Mercantile Exchange, crude for January delivery was quoted more than \$1 a barrel below Wednesday's late levels at \$14.90 per barrel. Meanwhile, gold plunged around \$10 an ounce between the morning fixing in London and the afternoon fix.

A contributory factor to the dollar's fall yesterday was a remark by Mr Gerhard Stoltenberg, West Germany's Finance Minister, that the lower dollar may be adversely affecting export industries but was also beneficial for price stability.

The apparent message that Germany could live with an appreciating Deutsche Mark was extremely negative for the dollar and undermined both equities and bonds yesterday.

The Treasury's 30-year 8.875 per cent benchmark issue closed ¼ point lower to yield 9.148 per cent.

It is somewhat difficult to judge the fundamental strength of this week's rally in equities. Earlier this week, futures-related activity appeared to have been substantial prior to today's so-called "triple witching hour" when stock index futures and options and individual options expire. This high level of technical activity tends to cloud judgement on buying or selling interest in the cash market.

According to some analysts, the expiration of options and futures today may have little effect on the market as many futures contracts will already have been rolled over into the new March contract which had been trading at a substantial premium to the expiring December contract.

Nevertheless, many traders and investors yesterday seemed to have opted for a defensive stance prior to expiration because of uncertainty about how much impact it could have on the cash market.

Blue chips showed particular weakness, having led market advances earlier this week. International Business Machines dropped 3½% to \$115½, Coca-Cola was down 1¼% at \$38½, General Electric lost 1½% to \$34½ and Philip Morris dropped 3½% to \$89½.

Falling oil prices weakened the oil sector. Exxon was down 1½% at \$38½, Chevron lost 1½% to \$37½ and Schlumberger, the oilfield services company, slipped ¼% to \$28½. Gold producers suffered during the morning session but improved in the afternoon session as gold lifted off its lows. Newmont Mining was down 5% to \$35½ and Butte Mountain closed 5½% higher at \$19½.

Digital Equipment fell prey to falls in the broader market. The company's share price had risen \$24 to \$137 in morning trading after news it plans to unveil a new computer by June which would be almost twice as fast as its most powerful current model. However, the share price then lost ground to close 1¼% lower at \$133½.

Canada

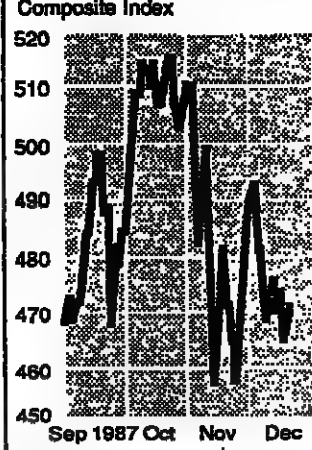
TORONTO STOCKS closed broadly lower as major share groups trailed a decline on Wall Street and investor nervousness about the falling US dollar.

The composite index fell 32.50 to 3,113.20 as declines led advances by 543 to 368 on turnover of 25.2m shares.

"These are very unsettled markets," said Mr Ross Wilson of Midland Doherty. "The US dollar is going to continue to fall and that's going to cause a lot of nervousness."

Golds were generally lower. Placer Dome slipped 3½% to \$819½ and Giant Yellowknife dropped 3½% to \$241½. Lac Minerals, which was granted the right to appeal against a court decision awarding a rich Ontario gold mine to International Corona, rose 3½% to \$214.

South Korea



Seoul up sharply in response to election

THE SEOUL stock market greeted the presidential election victory of Mr Roh Tae Woo, the ruling party candidate, with a record one-day rise in share prices, writes Our Market Staff.

The composite stock price index surged 19.27, or 4 per cent, to close at 491.44, as the market put behind it a nervous and mixed performance earlier this week.

Trade opened with a flood of buying orders for financial issues. The firm trend continued, but against a general reluctance to sell stocks turnover hit an all-time low of 1.4m shares, compared with Tuesday's volume of 12.21m. The market was closed on Wednesday for the election.

Brokers said the market took particular reassurance from the margin of Mr Roh's victory, taking the view that so large a majority could not have been rigged, whatever individual instances of electoral malpractice there may have been. Most expected the market to remain steadily firm for some weeks.

Insurance, financial and electronics stocks led yesterday's advance. Among the brightest blue chips, Daehin Securities added 1,300 to Won 34,000, while Dongwha won 1,300 higher at Won 38,440.

Seoul is closed to direct foreign investment, but internationally tradable funds on the market also rose modestly yesterday. The Korea Fund was \$1 higher at \$50¼ and the Korea European Fund also up \$1 at \$20.

STOCKHOLM climbed as the market took heart from lower interest rates and falling oil prices. However, trading remained thin.

Blue chips posted the largest gains with Volvo up SKr6 at SKr279, Asea edged SKr6 to SKr284 and Skandia rising SKr12 to SKr145.

During the morning, investment group Argentus was suspended amid reports of an expected, but still unspecified, deal.

SEOL saw a respite in the fall of oil prices which helped lift share prices modestly higher. Uncertainty over Norway's economic future curtailed half-hearted efforts to rally and left the all-share index up only 1.41 at 243.17 in low volume.

Oils and industrials edged higher, offsetting a modest decline in banking.

MILAN was taken higher by speculative interest in a few, selected shares. Most sectors built on their gains of the previous day with industrials, blue chips and insurers higher.

Expectations that domestic mutual funds would initiate a buying spree by 1988 in the future also continued to support prices.

MADRID advanced across a broad front as all sectors, with the exception of utilities, posted moderate gains. The general index added 6.35 to 225.83.

HELSINKI inched marginally lower as an almost empty trading floor left no room for movement. A small number of unchained shares, the Unitas index 0.2 lower to 546.5.

Late institutional buying supports modest advance

Tokyo

LATE but enthusiastic interest in leading high-technology and biotechnology issues took share prices in Tokyo higher for the first time in five trading days, writes Shigeo Nishiwaki of Jiji Press.

The Nikkei average gained 90.41 to 22,893.33. Despite the last-minute buying spree, trading remained lacklustre with turnover at only 523.33m shares, compared with Wednesday's 686.38m. Advancing stocks outnumbered declines by 489 to 392, with 145 issues unchanged.

The market got off to a firm start, helped by Wall Street's continued advance and lower crude oil prices. After the initial interest, however, buying tapered off, prices eased and activity was quiet.

Towards the close, however, securities houses, notably Nomura Securities, entered the market strongly to seek high-technology and biotechnology stocks. This, in turn, lifted the market modestly before the closing bell.

Leading high-tech climbed after the institutions stepped on to the floor. Sony surged ¥130 to ¥4,980, Matsushita Electric Industrial advanced ¥90 to ¥2,140, NEC added ¥30 to ¥1,920 and Fuji Photo Film rose ¥70 to ¥2,330.

Biotechnology stocks also benefited in the late buying spree. Tanabe Seiyaku soared ¥160 to ¥2,310, Takeda Chemical climbed ¥100 to ¥3,000 and Seiyaku was up ¥100 to ¥1,680.

Spurred by gains in these issues, chemicals also attracted strong buying interest, with Sumitomo Chemical adding ¥31 to ¥850 and Mitsui Petrochemical Industries up ¥40 to ¥1,050.

Large-capitalisation stocks returned to favour. Ishikawajima-Harima Heavy Industries topped the active list with 35.66m shares traded and advanced ¥18 to ¥680. Nippon Steel, the second busiest issue with 17.26m shares traded, finished ¥10 higher at ¥414.

Small and medium-capital stocks, which had performed strongly during recent sessions, declined over a broad front.

Tokyo Construction closed ¥5 lower at ¥820 after rising ¥23 at one stage during the day. JDC and Nachi-Fujikoshi shed ¥10 and ¥16 to ¥760 and ¥552, respectively.

ECONOMIC ministers of the Association of South East Asian Nations have agreed in principle to seek the cross listing of shares on each other's stock exchanges, Renter reports from Manila.

The Philippines' Trade and Industry Secretary, Mr Jose Concepcion, said there remained technical problems to sort out but he expected cross listing to begin next year. Asean comprises Singapore, Malaysia, Indonesia, Thailand, the Philippines and Brunei.

NTT ended ¥10,000 lower at ¥2,270, while Dai lost ¥400 to ¥14,000.

Bond prices eased after a firm start in inter-dealer trading. The early rise was supported by lower crude oil prices and falling long and short-term US interest rates.

In early trading, the yield on the 5.0 per cent Government bond, maturing in December 1987, fell to 4.615 per cent as a result of active buying by dealers, including the dealer section of one major brokerage house.

However, dealers sold the benchmark issue in late trading, pushing up the yield to 4.680 per cent.

On the Osaka Securities Exchange (OSE), profit-taking pressure drove share prices lower for the fifth consecutive trading day.

The OSE stock average closed 17.96 lower at 23,207.35, on an estimated volume of 103.98m shares, up 900,000 from the previous day.

Shikoku Electric Power posted the maximum allowable daily gain of ¥106 to ¥1,030 on speculative interest.

Australia

STRENGTH among mining and industrial shares on the back of firmer base metal prices spread through the Sydney market to leave prices higher. The All Ordinaries index added 7.3 to 1,950.5.

News Corp started among industrials with a 50 cent gain to A\$8.90, while Lend Lease added 40 cents to A\$10.70 and BTR fell 10 cents to HK\$6.70.

Nyx 10 cents to A\$6. James Hardie rose 10 cents to A\$2.70 on news of 11 per cent higher interim profits.

Metal prices gains put 24 cents on CRA to A\$5.84 and 25 cents on Comalco to A\$2.60. North Broken Hill rose 7 cents to A\$2.55. Golds, though, suffered from lost momentum in the bullion price, with Gold Mines of Kalgoorlie 80 cents off at A\$4.

Singapore

FADING from a buoyant opening as investors took profits on the past session's advances, Singapore closed marginally higher but off its highs. The Straits Times Industrial Index ended 5.37 up at 768.63.

Of the featured blue chips, DBS and ICS both made up 20 cents to S\$8.55 and S\$6.80 in turn, while Incheper rose 11 cents to S\$3.06.

Fraser and Neave, though, fell 5 cents to S\$7.20 despite announcing an 18.5 per cent rise in operating profits.

Elsewhere, Carlsberg drifted 8 cents lower to S\$4.46 after Wednesday's surge, while Metro was 6 cents easier at S\$4.42. City Developments added 4 cents to S\$1.90 in busy trade, while Haw Par was 5 cents off at S\$2.24.

Hong Kong

SLACK foreign interest and a dearth of market signals left Hong Kong share prices mixed in dull trade. The Hang Seng index closed 3.48 off at 2,142.53 having recovered an earlier 19 point fall.

Cathay Pacific made a 20 cent advance against the market to HK\$6.45 and utilities found support, with Hongkong Electric 5 cents up at HK\$7.20 and China Light 10 cents firmer at HK\$18.80.

Banks were mixed, with Hongkong Bank up 5 cents at HK\$6.85, but Bank of East Asia off 10 cents at HK\$16.90 after Wednesday's strong gain. Hang Seng Bank also gave up recent gains with a 20 cent fall to HK\$25.40.

In commercial and industrial issues, Wharf Holdings fell 5 cents to HK\$2.20 and Jardine Matheson slumped 40 cents to HK\$9.40. Hutchison Whampoa fell 10 cents to HK\$6.70.

Momentum slackens as dollar falls

THE MILD enthusiasm which lifted the market at the beginning of the week petered out, leaving major bourses quietly depressed. Many operators decided to close their 1987 books on a comparatively firm note and hope for a better time next year. The renewed weakness of the dollar also reined in any efforts to sustain the upward momentum.

FRANKFURT eased as many operators wound up for the year, taking light profits after Wednesday's advance. Concern about the dollar continued to weigh on the market and hit export-led issues, notably cars.

Many investors appeared to have taken the Commerzbank's regular year-end report to heart. The bank forecast a 3 per cent rise in German company profits during 1988 but that warned that investors should exercise caution because of continuing currency instability.

The mid-session Commerzbank index dipped 8.6 to 1,348.1 and the FAZ index closed 2.78 lower at 438.57.

Among cars, BMW, which had led the market in previous days, tumbled DM17.50 to DM458 after profit-takers moved in while Daimler-Benz slid DM15.50 to DM613. Porsche was adversely affected by news that the company's president will resign because of slumping US sales and dropped DM13 to DM430.

Volkswagen eased DM2 to DM235 after the group announced a 1 per cent increase in sales and flat net earnings for 1987.

The weak dollar, fixed just above its record low, pulled electricals lower. Siemens eased DM6.30 to DM376 and AEG slipped DM4.10 to DM215.60.

Banks posted weak losses. Deutsche eased DM2.50 to DM414.50. Dresdner slipped DM2 to DM237.50 and Commerzbank lost DM4.50 to DM226.50.

AMSTERDAM pulled itself off the day's lows and remained depressed by disappointing company news. The CBS Tendency index closed a net 0.8 lower at 456.

Blue chips closed mainly lower, with the exception of Un-

lever which traded 20 cents firmer at FI 106.00. Royal Dutch ended 30 cents lower at FI 193 and Alzco dropped 40 cents to FI 91.90.

Transport group Nedlloyd, which resumed trading after two-day suspension, closed FI 15 lower at FI 126.50. Following news that the company planned to almost double nominal share capital and its forecast of a sharp outflow for 1987.

Biotechnology company Gist Brocades, which forecast lower net earnings for 1987, was suspended at FI 24.60, up 10 cents from Wednesday's close.

PARIS was depressed in buy trade both by pessimism over the outlook for the dollar and profit-taking on the week's gains. The CAC index eased 1.5 to 286.3.

Oils fared poorly as crude prices continued to sink. Elf Aquitaine was FFr11 down at FFr227 and Cie de Raffinage at FFr227. Distribution FFr5.20 off at FFr74.80. Exploration group Geophysical drifted FFr7 lower to FFr296, a dip of 7.8 per cent.

Peugeot provided some cheer

among blue chips, rising FFr4 to FFr998, while Spie Batignolles added FFr12 to FFr942 and Telemecanique Electric FFr109 to FFr2,974.

Cle du Midi, in contrast, lost FFr25 to FFr1,065 and Thomson-CSF FFr24 to FFr741. Paribas was FFr4 cheaper at FFr821.

ZUCHEM firmed as modest gains in blue chips and insurers offset declines in other sectors. The Credit Suisse index inched up 2.8 to 421.3 in moderate activity.

Among insurers, Swiss Reinsurance added SFr150 to SFr12,800 and Winterthur gained SFr25 to SFr13,500.

Other blue chips to post strong gains included Sandox, which added SFr200 to SFr12,500 and Adia, which picked up SFr125 to SFr5,950. Nestle rose SFr50 to SFr8,125 in foods and Jacobs-Suchard added SFr50 to SFr8,550.

In a mixed banking sector, Credit Suisse shed SFr30 to SFr2,375 and Union Bank gave up SFr60 to SFr3,050. Swiss Volksbank rose SFr10 to SFr1,720.

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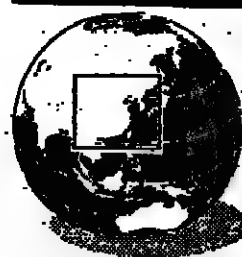
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SECTION III

FINANCIAL TIMES
SURVEY

Potential for change is profound. A younger and better-educated new Politbureau has been elected,

economic restructuring is under way, and creative freedom has increased. Critical problems remain, however, any one of which could halt change, reports Colina MacDougall

On the road to reform

SYMBOLISING the upheaval almost everywhere transforming China, the capital, Peking, has altered in the last 10 years from an overgrown township of narrow, medieval lanes and primitive factories to an urban sprawl with high-rise blocks, ring roads and glossy skyscrapers.

The subdued blue and olive crowds which pack the streets are nowadays dotted with multi-coloured anoraks and young men in mirror sunglasses. Shiny new cars jostle the millions of cyclists for increasingly congested road space.

In the lanes, the street traders - inconceivable in the 1970s - must "change money", "change money" as they lurk among the down jackets and (what purport to be) Hardy Amies coats. The much-prized foreign exchange certificates issued to visitors give ordinary Chinese access to shops and hotels they would never otherwise be able to enter.

China is in a state of transition from 30 years of dogmatic socialism to an unknown future. Watching over it from a distance is 82-year-old supreme leader Deng Xiaoping, the single most powerful force behind the reform. He retired in November from his post on the Politbureau's standing committee, but will keep his power as an elder statesman till the day he dies.

This transition will be eased by the present low-profile foreign policy which gives the country a breathing space to focus without distraction on its domestic affairs.

With the US, China has reached a plateau of good relations only marred occasionally by incidents such as argument over human rights in Tibet. Towards the USSR it maintains cool but beneficial ties which keep its borders quiet and bring trade. And in Asia, while relations with Japan remain slightly uneasy, the ice in India and Indochina seems about to thaw.

Hu Yaobang, the excitable former party general secretary who lost his job after the student demonstrations last winter, said in 1984 as China embarked on its urban economic reform programme that it was a second revolution as important as the first, communist, one. At the time, it seemed like a piece of typically Hu hyperbole.

Now, as China moves to a second generation of post-1949 leaders and the new economic policies bite more deeply, the potential for change indeed looks profound.

How serious the Chinese are about this change was underlined by the then Premier Zhao Ziyang at the party Congress last

month. He made a formal definition of China's ideological position, saying it was in the initial stage of socialism which would last until the middle of the next century. He could hardly have done so unless the idea had earlier been accepted by the party.

The concept allows the country to experiment with any economic measures, no matter how seemingly capitalist, to help it out of poverty. "Marx did not know anything about oriental countries," officials from the theoretical party journal, Red Flag, commented last month.

To mastermind these experiments, the new 18-strong Politbureau elected at the congress looks appropriate. Younger and more educated than the previous one, a third or more have university education (curiously, all are engineers). Most of the others are long-time government and party administrators, while the army, in the past a strong caucus of tough and narrow men within

the leadership, is now represented by just two members.

There are other signs of impending change. Zhao's speech contained important references to the separation of party and managerial powers, a proposal designed to make enterprises more efficient by trying to ensure they are run by technocrats. While this has been urged before, the move has now been definitively ratified.

Even on the intellectual level, things look better than they have done since the anti-bourgeois liberal campaign earlier this year. The astrophysicist, Professor Fang Lihui, who lost his job last winter because of his role in the student demonstrations, has been allowed to travel

abroad and communicate with journalists.

The deputy minister of culture, the actor Ying Ruocheng, claims China is at the start of a new era. "We don't have creative freedom on a plate," he said recently, "but writers are encouraged to produce more interesting things".

China's economic reform, which earlier seemed on hold because of its practical and political problems, has also been given a shot in the arm. Premier Zhao's party congress report outlined the reform programme in general terms and Director Song Jinguang of the Commission for Restructuring the Economy last month described the specific steps for next year.

These included freedom to buy and sell house and land leases, aided by the establishment of special house banks which would operate like building societies. New investment corporations would take over the bulk of financing large national projects, thus putting an end (providing they work) to the system of state grants.

A whole raft of other reforms undergoing pilot tests, like the bond issuing system and reorganisation of the banks, are also going ahead. Given the frozen nature of Chinese ideology and economic thinking just a few years ago, these are astonishingly bold.

On the vexed question of the bankruptcy law, which has been seen as a touchstone of whether the reformists in the leadership will prevail, director Song said that this would be adjusted to prevent workers losing their jobs. This compromise suggests

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that though the reformers have had to concede some ground to the conservatives, they are still determined pushing on with change.

But in this momentous transition from Marxist dinosaur to fitter and more flexible giant, China still faces truly enormous problems. One is the leadership, which though the Chinese reject the western division into conservatives and reformers, is still obviously split on how far and fast the reform should go.

Another is the problem of making the new reform policies work. The third is whether, with or without reform, the economy can grow fast enough to bring prosperity to its rapidly expanding population.

The post-November leadership is probably as divided as the previous one, which contained several top men committed to old-fashioned Marxism. Among members of the new Politbureau not many are associated with the conceptual side of the reforms, one Peking diplomat pointed out.

Possibly only the new general secretary, former premier Zhao Ziyang, and his predecessor Hu Yaobang fall into that category. Both may have now been weakened. Zhao through moving to party work from his old government fief and Hu by his fall from the Politbureau standing committee. The beneficiaries of the Congress, notably acting premier Li Peng and dark horse Qiao Guh, both quite young, are not obviously reformers.

The elderly conservatives who retired at the congress will keep their influence, just like Deng. Since the new Politbureau must have been the outcome of tough bargaining, they will have their proteges, also just like Deng. Although the new Politbureau seems bent on modernising the economy, there are no spokesmen for genuine political reform.

But the student demonstrations last winter were a sign of real, if unfocused, demand for a freer system. The students were docile enough when the leadership clamped down in January, but, as this month's protest by trade students indicates, they remain dissatisfied with their living conditions and feel the lack of means to express their discontent legitimately.

Intellectuals other than official spokesmen like Vice-minister Ying are intensely cautious

about predicting any kind of renewed free expression. And until the leadership can make real concessions to its educated elite, true modernisation may remain a dream.

The keystone of the economic reform, the freeing of prices, has been postponed. Alarmed by inflationary pressures, the government has backed off this controversial issue. Some commodities which were earlier controlled can be bought and sold freely, but the government has consistently drawn the line at reviving the basic items like coal, the low price of which distorts the entire economy.

It took fright just two weeks ago at the high price of pork and sugar and put them on ration, for the first time in years. Deng's successful reforms had earlier meant that even if supplies were erratic, it was usually plentiful. It is true that complaints about rising prices have been gathering speed, but the move suggests that the new leadership may not have the necessary commitment to make the reform work.

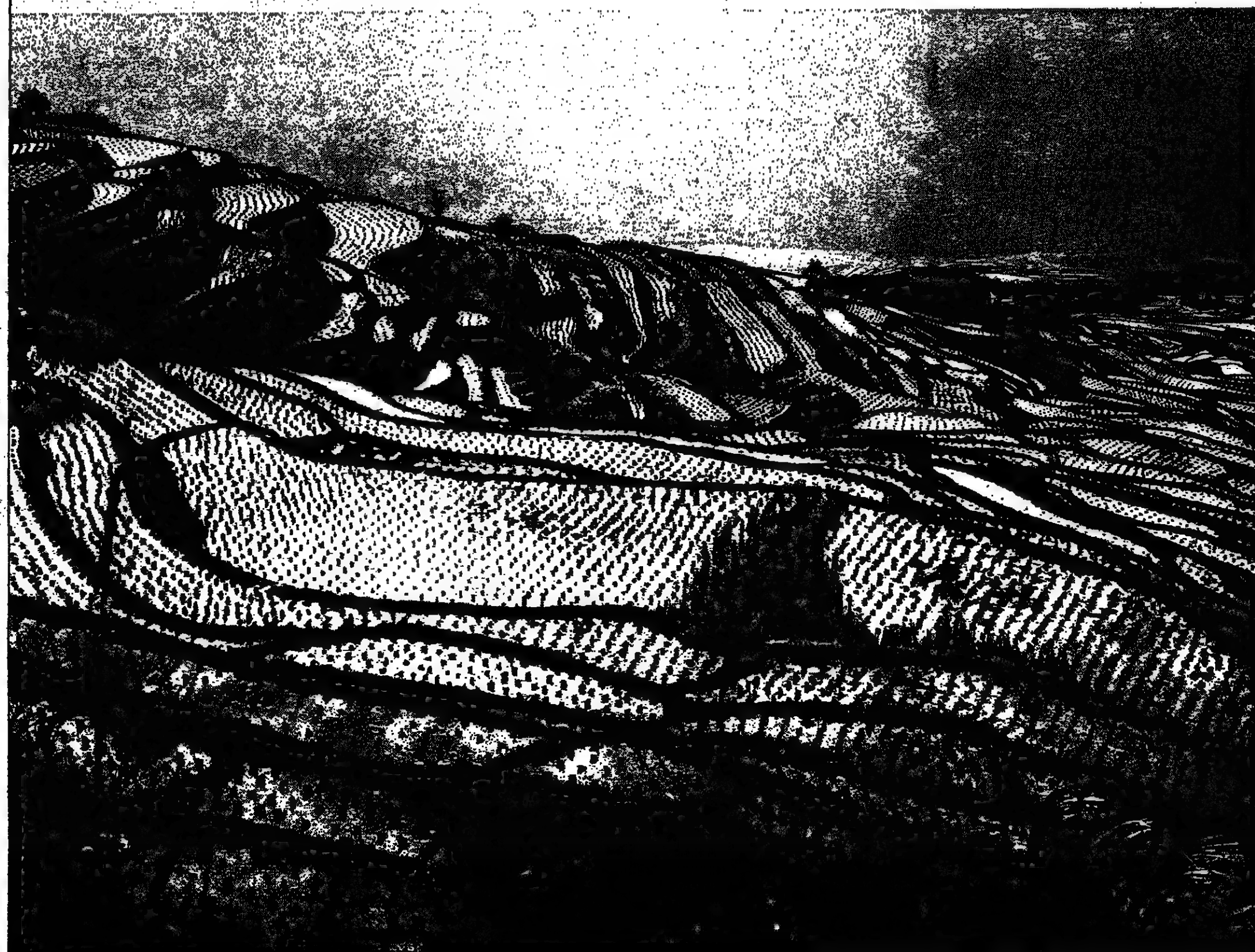
Worse, taking bold reformist steps will become increasingly difficult as the gains produced in recent years by the first round of reforms become steadily more difficult to maintain. This applies particularly to agriculture where de-collectivisation seriously reduced investment in farming and led to declines in essential inputs like irrigation and fertiliser.

Controlling industry, now that managers have a degree of freedom and funds can be raised from the banks instead of the central bureaucracy, has become a serious problem. On paper, output has risen hugely in recent years, but productivity much less so. And the central government in Peking has not been able to stop enterprises from spending freely on capital construction, while itself running short of funds for vital infrastructure.

China is faced with critical problems, any one of which could shipwreck the vital transition it is now engaged in. In the end the leadership may be too fearful of the consequences to press ahead with controversial reforms. But unless it does so, the potential which the changes of recent years have so clearly unlocked is not likely ever to be realised.

China

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All eyes are on China. It's a land of vast resources and emerging opportunities. With an attitude towards trade and contact with the rest of the world that has changed radically in recent years. However, a great deal of experience and understanding is necessary to do business successfully in China.

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CHINA 2

Robert Thomson considers this year's landmark political changes

Veterans still in the wings

WHEN CHINA'S new Premier, Li Peng, delivered a speech of thanks to the officials anointing him, he noted that the Communist Party veterans would have an important role in fashioning policy and confessed that he would certainly be seeking their wise counsel.

The geriatric factor of Chinese politics has taken a new form since the landmark Party Congress of a few weeks ago. At that gathering, just over 90 officials departed from the Central Committee, and the elite five-man Politbureau Standing Committee was overhauled, gaining four new members and a sense of purpose previously lost through the onset of senility and ill-health.

To have secured the retirement of the officials was a major victory for the paramount leader, Deng Xiaoping, who handed in his standing committee and central advisory commission titles as an example to his comrades. Yet Mr Deng, 83, embodies the contradictions of the pension plan, as he will continue to have the last word in Chinese politics.

The thrust of the personnel and structural changes was to away with the informal decision-making and personal power-broking that has characterised Communist rule. China suffered under the idiosyncrasies of Mao Zedong, and the party is attempting to ensure that it will never again dictate policy.

In theory, the changes institutionalise procedure, but in practice, it will be difficult to contain the energies of several elderly officials who still feel that they have an "historical role" to play. In the past, those officials have used posts in, say, the secretariat, to wield influence that the title alone does not provide. Removing the title will not necessarily remove the influence.

A senior Politbureau member, Wu Xueqian, the Foreign Minister, said party veterans are "very much interested" in reform and "we would welcome them to forward their suggestions and views on the other hand, if we are unclear on some major policy issues, we can seek the advice and guidance of Deng Xiaoping. I don't think there is a question of their interfering in affairs."

Chinese politics is a confusing mixture of old friendships and grudges, of deeply-held beliefs and opportunism, of subtle campaigns to undermine and blatant disregard or blind support of party policy. A telling example

Attempts are being made by the party to ensure that whim never again dictates policy



increased inflation: you can't introduce price reform rapidly. There is a lot of ideological work to be done. A lot of people are not willing to accept price rises."

The party has bought time by halting the widening of the reforms, and attempted to curb popular concern about pork supplies by reintroducing ration tickets in many cities. A professor of economics mused: "After nine years of reform, coupons appear. It is food for thought."

The advantages of reform were clearly visible on market stalls and in the fields a few years ago but expectations are now greater, while the reform of the urban structure is proving more difficult and providing less obvious short-term benefits.

Reformers are dependent on popular support for the introduction of measures that weak-knees officials would prefer deferred. Ideologically suspect reformers have been pushed past party ideologues by citing favourable public response as evidence of their worth. An orgy of opinion polling during the recent party congress reflected the leadership's concern at the state of the public mind.

The newcomers to the Politbureau appear to be successful reformers, yet much about them remains unknown. There is no access to the Chinese equivalent of parliamentary debates. A final decision is released, and in public, party members fall in line behind that policy.

Yet officials lament that foreign analysts type-cast Chinese politicians as conservatives or reformers, and that Li Peng, the new Premier, has been labelled as pro-Soviet because he was educated in Moscow and speaks Russian. "This is too superficial," a frustrated official said.

The party has shown no willingness to provide access to the thoughts of individual party members, and so Li Peng remains a mystery, as do two of his colleagues on the powerful Politbureau standing committee, Qiao Shi and Yao Yilin. This ignorance is shared even by ordinary party members, who often ask foreign journalists for the latest Communist gossip.

Hence, sudden moves, such as the dumping of Hu Yaobang, remain a possibility despite the rise of the reformers. The party has realised that "openness" will score points here and abroad, but until the leadership is truly open, judgment must be reserved on the claim that political campaigns and purges are things of the past.



China has now become the world's fourth largest arms supplier

China's forces

Business as usual

ALTHOUGH POLITICAL and military developments in China are closely interlinked, the tremors which shook the Chinese political landscape this year as a result of a renewed struggle between reformist and conservative leaders had no noticeable effect on the People's Liberation Army (PLA).

In the military establishment, these tremors did not dilute the intensity of the ongoing effort to modernise the PLA. Nor did they draw the PLA into an enlarged political role. For the military, it was business as usual.

And its usual business in recent years has been to carry out the reform programmes inspired by the Deng leadership. Aimed at improving the fighting capacity of China's armed forces, this programme envisages the incremental upgrading of weapons coupled with a complete overhaul of the PLA's organisational structures, personnel make-up and operational practices. That purpose was strongly reaffirmed in both statements and actions this year.

The most important statements were made by Zhang Aiping, the Defence Minister, on the 60th anniversary of the PLA's founding. Although the international situation was peaceful, Zhang said, complacency was not in order. The threat from China's borders had not been removed, and the Vietnamese were still troublemakers.

While China's armed forces did not have to be on constant alert, neither could they slacken their efforts to modernise. The gap between their level and the demands of modern warfare was still huge and had to be narrowed gradually. Even though the main national effort was on economic development, appropriate resources should be allocated to this end.

It is not difficult to see why Mr

Zhang is dissatisfied with the defence appropriations. The stated military budget this year amounts to slightly over Yuan 20bn, about the same as last year. However - and this is the crux of the matter - despite the leadership's intimations that the rise in defence expenditure would match economic progress, the opposite has happened.

The percentage of the national budget devoted to defence has fallen sharply - from a post-Mao peak of about 20 per cent during the 1979 Vietnam war to 15 per cent in 1984, 12 per cent in 1985, 10 per cent in 1986, and slightly over 8 per cent this year.

Despite pressure from the military for more money, there is no indication that the Deng leadership is inclined to change its policy. Statements by leaders and articles in the military press have forcefully reiterated the commitment to military modernisation but cautioned that this would have to be achieved without substantial budgetary increases.

The Defence Minister's reservations about resource allocations may have been one reason for his exclusion from the new Central Committee elected by the 13th Party Congress, although there were probably other reasons as well - his rumoured ill-health and the wholesale replacement of veteran leaders by younger ones. In any event, the differences which surfaced this year spotlight a basic dilemma facing the leadership in its relations with the PLA: how to promote military professionalism without providing the professional military with the modern hardware which their increasingly specialised outlook and sense of duty demand.

So far, the leadership has contained these differences by pursuing a policy that concentrates

on improving existing weapons while allowing for the production of some new ones and for limited imports of military technology, but without large new outlays in defence spending. This policy has ensured a harmonious relationship with the military which, despite the demands for more funds, has not been disrupted.

In line with this policy, new developments were reported in all the services. The ground forces introduced a new main battle tank, designated the Type 79. Based on the Type 69 - itself a derivative of an old Soviet model - this tank has a new gun, is heavier, and has a simplified fire-control system and night vision equipment. In addition, several new types of armoured personnel carriers were produced.

The navy was reportedly building two new modified versions of its basic light frigate, one designed to incorporate recent advances in missile technology, the other equipped with a helicopter deck. The air force was outfitting the A-5 attack aircraft, based on the MIG-19, with avionics from Italy, and incorporating American technology into its new F-8 supersonic all-weather fighter-interceptor.

Other deals, concluded or in the offing, included an agreement to purchase French helicopters armed with anti-tank missiles, an agreement with a British firm for the outfitting of Chinese vessels with weapons and electronics, the purchase of radar and radio equipment from an American company, and a memorandum of understanding with a British firm for the equipping of Chinese combat aircraft with an air refuelling capability. In addition, China's Defence Ministry was seeking bids from at least five West European countries for the supply of

equipment for new Chinese-designed diesel-electric submarines. Some of the funding for the PLA's weapons modernisation apparently comes from China's arms sales, the volume of which in recent years - estimated at more than \$6bn between 1983 and 1986 - has catapulted China to the position of the world's fourth largest arms supplier. Reported transactions this year included a \$10m sale of tanks and anti-tank guns to Thailand, negotiations for the purchase by Brazil of F-7M Airguard fighters and the possible acquisition by Pakistan of a modified F-7M fighter into which US engines and avionics may be incorporated.

But the largest deals were the officially-unreported ones and these continued to involve the delivery of weapons and equipment to Iraq and especially to Iran. Most ominous was the alleged supply of more than 100 new Silkorm missiles, which have already struck US-owned or US-flagged oil tankers and have been responsible for a major escalation of hostilities in the Persian Gulf. Although the Chinese denied selling Silkorms to Iran, following American pressure they announced that they would not sell any more of these missiles.

During the leadership conflict which erupted this year the PLA stayed on the sidelines - in keeping with the trend that has marked civil-military relations under the Deng administration. This trend was consolidated by the decisions of the 13th Party Congress. Two military men - Yang Dezhi, the chief-of-staff, and Yu Qili, were dropped from the Politbureau and only one military representative was elected - Qin Jiwei, commander of the Peking Military Region. A new chief of staff, Chi Haotian, was announced at the end of November.

The proportion of military men in the Central Committee was likewise reduced. Yet PLA delegates to the Congress voiced wholehearted support for the programme presented by the new party leader, Zhao Ziyang, a programme that is a ringing reaffirmation of Deng's policies.

Most important, Deng Xiaoping retained his post as chairman of the Military Affairs Commission while giving up his other positions. Deng has been instrumental in launching the modernisation of the PLA and moving it out of politics and his personal co-operative relationship worked out by political and military leaders. It will be up to Zhao, who as the new first vice-chairman of the Military Commission is slated to succeed Deng in that capacity, to ensure that this relationship endures.

Elis Joffe

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CHINA 3

The student movement, for the moment, has gone to ground

All quiet on the campuses

JUST ON a year ago, thousands of inspired Chinese students were in the streets of Shanghai demanding democracy and taunting Communist Party leaders. On the fringe of People's Square, a student swore that he and others would maintain their rage until the Government gave in.

Now, the student movement has gone underground. It has been buried under the students' disparate goals and fears, and throttled by a Communist Party still in control of the campuses. The movement had no leaders and no clear aim and, in the end, no means of maintaining momentum.

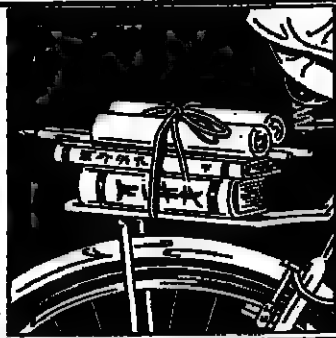
Yet the conditions that fashioned the spontaneous protests have not disappeared. Chinese students are increasingly aware that the Communist definition of democracy differs from that of the West. They know individual freedoms in China are still limited. And the food in campus canteens is still lousy, the dormitories are crowded and the job assignment system often unfair.

"We still want the same things. A lot of students who didn't participate agreed with the protests, but they are too busy with their studies. They just want to get good marks," explains a student from Qinghua University in Peking. She was among those too busy last year, but says she will take to the streets if there are more pro-democracy protests. Another Qinghua student emphasises that most of the protesters were not sure about what they meant by democracy. "I supported the protests, but China has to have the Communist Party. We can't afford to have many parties. It would be chaos. How many parties does your country have?"

Students were surprised and even frightened by the impact of the protests, which spread through more than 20 cities. In early January, a party campaign against "bourgeois liberalism" gathered pace and in mid-January, the Communist Party boss, Hu Yaobang, was forced to resign. A student from Peking University said that no-one wanted the fall of Mr Hu, who was perceived as a liberal.

The demonstrators partly drew their strength from past student protests that have been enshrined as glorious Communist history. The May 4 movement of 1919, demonstrations during the early 1930s against creeping Japanese control, and protests in the late 1940s against Nationalist rule are lauded in the standard texts, and students are taught to be aware of their revolutionary role.

Events of the last year emphasise the important role students have always played in politics



However, in assessing the protest of late last year, the party chose to compare the students' actions to the mayhem caused by young Red Guards during the Cultural Revolution (1966-76), when Mao Zedong attempted to use the country's youth to overturn the bureaucratic order and create a permanent state of revolution. The comparison is ill-founded, as party officials orchestrated the Red Guard movement, and unlike them, the students last year were generally well-behaved.

Yet the movement's lack of cohesion enabled the party to blame a few criminals, spies and deviant workers for the demonstrations, and to absolve most of the students from their sins. Three intellectuals were isolated: an astrophysicist, Fang Lizhi, sometimes referred to as "China's Sakharov", a journalist, Liu Binyan, and a writer, Wang Ruoshang.

Professor Feng Chengbai, vice-chairman of the International Studies department of Nankai University in Tianjin, suggests that every Chinese university student knows of but "not many agree with" Prof Fang, whose thoughts on democracy were plastered around Chinese campuses in the weeks leading up to the protests and who lost his job shortly thereafter. Many of the students latched onto Prof Fang simply because they sought a focus. He is one of the few intellectuals to articulate controversial thoughts on democracy, asserting that democracy is a basic human right and not, as the party believes, a right that it can grant to the Chinese people.

In fact, Prof Fang has made even more inflammatory comments that have been widely distributed in universities without inciting unrest. In interviews in recent months with foreign journals, the professor, a party member until this year, suggested that every page of basic Communist texts contained errors, and that the Communist Party and Karl Marx had done little or nothing for China.

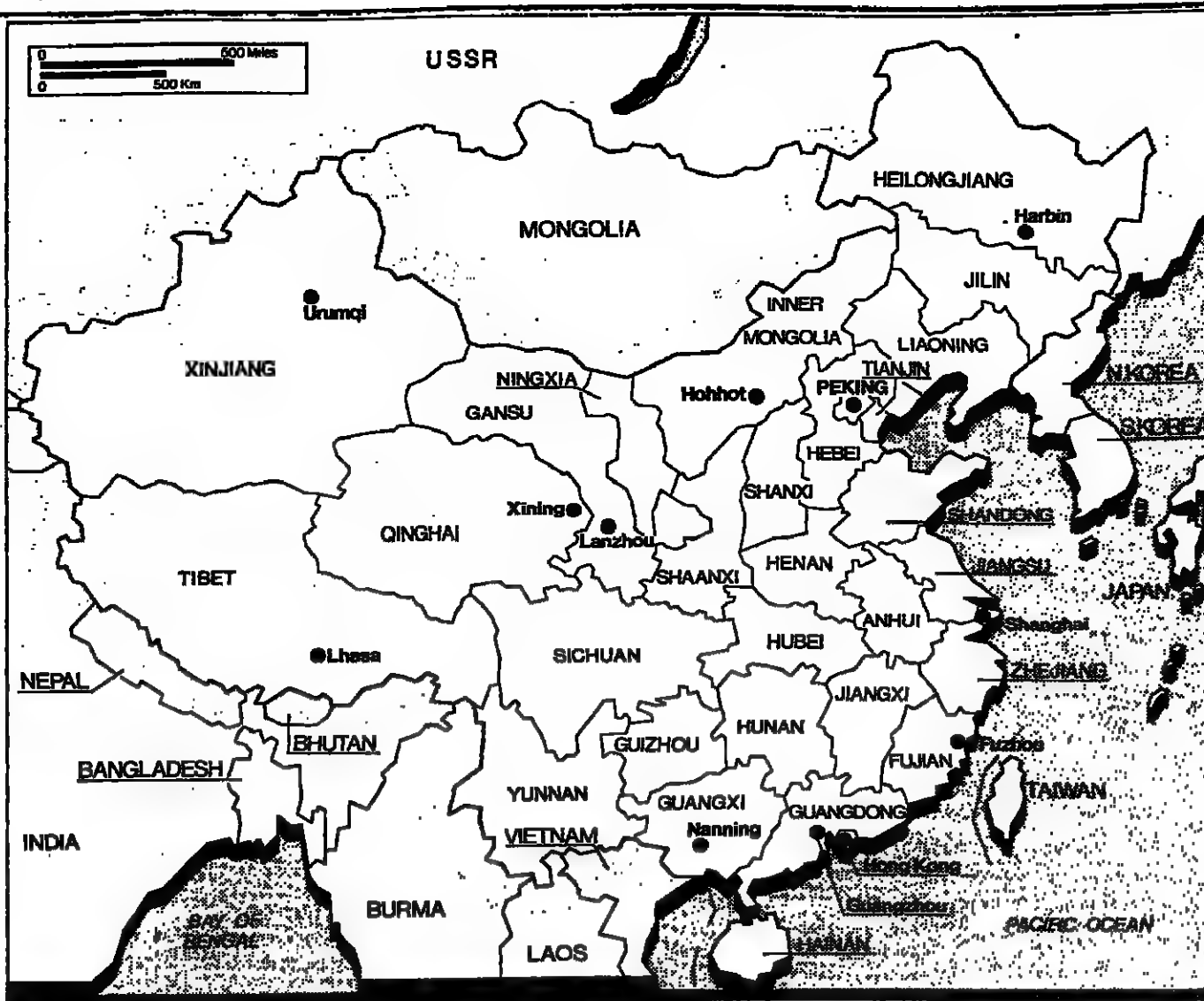
choice but to join the League. If you don't join, people start asking questions."

University officials attempted to identify protest organisers, and there is strong evidence that students have been expelled from universities around the country for participating in protests, while others have been warned that they will be assigned extremely unpleasant jobs if they again step out of line.

The party's pervasiveness has kept the campuses quiet, and strict study rules have meant that, unlike students in the West, Chinese students rarely have the time or the means to organise demonstrations. Yet further protests are a possibility, especially if the country's reformist leadership is thought to be under attack by conservative Communists.

Students have played an important political role in the past. They have been used by the party and used by factions within the party against other factions. What most bothers conservatives is that, despite the Youth League and relentless propaganda, students have developed strong political and philosophical views well outside the boundaries defined by the party line. Standing outside that line is the first step to taking to the streets.

Robert Thomson



A policeman holding back students who broke through a cordon around Peking's Tiananmen Square in January

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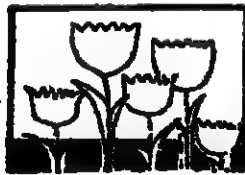
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CHINA 4

A quarter of the population is illiterate

Tackling a shortage of skilled manpower

EVERYWHERE IN China, the story is the same. Factories, stores and government bureaux are radically altering the way they manage their affairs.

The Government is setting up new administrative offices to regulate emerging markets, while trimming back departments that once exercised tight control over the economy. Factories are rushing to import new technology from the West - the most advanced they can afford, or at least the most advanced that Western governments will let them have. New accounting standards are being adopted, new methods of paying taxes, calculating profits, keeping track of operating costs, and, of course, figuring bonuses.

But where are the people who have the knowledge and the skills, let alone any experience, to manage these new ways of doing business? The boxes of new imported equipment, sitting in crates on factory floors all over China, waiting for the "foreign expert" to come to install them, have become the best indicators of China's severe shortage of trained manpower.

The problem now lies at the crux of China's inability to push forward with reforms in the economy and it is for this reason that at this year's 13th Chinese Communist Party Congress, General Secretary Zhao Ziyang listed improvements in education as the highest priority facing the nation.

The concepts of where China's leaders want to move the country are very clear. But China does not now have the trained personnel capable of taking China there. The Government admits that one quarter of China's population is still illiterate. That is over 250m people, and many believe that the numbers of people who would be considered functionally illiterate is significantly higher.

In the short term, there is probably little that can be done about this. Money, of course, is being spent, more every year and education is one of the fastest rising expenditure items in the national budget. State budgetary allocations for educational operating expenses have risen from Yuan 6.56bn (5.9 per cent of state budgetary expenditures) in 1978 to Yuan 21.43bn (9.5 per cent) in 1986, and are continuing

to go up at 15.9 per cent annually.

Now the Government has committed itself, at least in principle, to a national nine-year education system. The rise in spending and the pronouncement of lofty goals, however, mask a fairly complex re-ordering of priorities in the past decade that have both helped and hurt China. China has clearly succeeded in taking most politics out of education, and vastly raising standards, particularly for higher education. But the price paid has been a sharp reduction in the availability of mass education.

Thousands of primary and secondary schools, some supported by local government funds, closed their doors after the Cultural Revolution. Standards at those schools were unacceptably low, but the reintroduction of an elite-oriented education system has brought with it political strains, thus prompting the Government to announce universalisation of lower-middle school education and the abolition of post-primary school entrance examinations.

The policy, however, is really just wishful thinking for the present. Mr Liu Zhongde, vice-

chairman of the State Education Commission, says the system is expected to be realised in urban coastal areas by the end of the decade, in other moderately developed areas by 1995, with the rest of China put on hold until into the next century.

The Cultural Revolution education policies had the effect of broadening mass education, lowering standards and cutting off the top of the educational pyramid. Higher education was starved of funds, and this is the area that has received the most attention in recent years. Some 2.16m university students have graduated in the past nine years, equal to the total number of graduates in the previous 28 years. Operating expenditures for higher education have more than quadrupled since 1977, and the latest available figures for capital spending show higher education getting 50 per cent more than general education in 1986.

On top of this, faculties are now able to compete for research monies from production enterprises and administrative units, and this indeed now provides the main support for academic research. International exchange



Schoolchildren playing in a rocky pool in Shanghai

programmes have sent thousands of scholars abroad, and brought leading academics to China. This, plus increased budgets to import foreign academic books and periodicals, have in a real sense restored a sense of normality to the campuses, the feeling that Chinese scholars can once again claim to be part of a world community of learned people.

Westerners who have close contact with Chinese universities across the nation speak of amazement at the degree of campus freedom, at the open atmosphere where widespread debate flourishes. It thus came as a rather severe shock a year ago, amid all this apparent good news, that China's students took to the streets in major cities to protest at conditions in the universities and at China's political backwardness, apparently supported by leading academics such as the physicist Fang Lihui.

The post-mortem on the demonstrations, that eventually led to the downfall of Hu Yaobang, the Communist Party General Secretary, is that the students were unrealistic and naïve about their own role and political possibilities for affecting China's political development. That view is shared by academics, diplomats and many of the students themselves.

The reaction was to raise once again the spectre of increased political control over campuses. Student political education was increased, political criteria were taken into account at university entrance-time, and some manual labour became part of the summer vacation, although this was later softened to become "social investigations," meaning whirl-

wind tours of factories or administrative units.

Faculty members say that their students have changed over the years. In the immediate post-cultural revolution years, says Mr Yu Di, president of the Peking College of Economics, students were more mature because they came with substantial work experience under their belt. They were better able to absorb their studies and fit into production units after graduation.

In recent years, however, new students have seen little besides the inside of a classroom while they grew up, and do not have a strong sense of realism. But what the lack of "realism" also means is that students do not have deep reverence for the principles that still in theory guide Chinese intellectual life, namely Marxism and socialism.

Education was intentionally depoliticised by the Government, and this is the natural result. Economics teachers at the Peking College of Economics insist that Marxist theory is the foundation for all their teaching and must continue to be a basic required course. But, says one student: "Marxism is just a dead and boring theory. Students are forced to study it, but they are much more interested in reading works by authors like Jean-Paul Sartre."

China's students appear to have become free thinkers, much to the dismay of party officials, although they do not appear to be highly politicised. Rather, they are interested in money, and competition for the best jobs after graduation has contributed further to mismatches in the job allocation system.

China has become famous for

assigning physics graduates to rural research institutes, or putting chemists into electronics factories. In order to combat this, direct links with enterprises, which make specific requests for graduates with certain qualifications. But the mismatches continue because, although universities now have the final say on job assignments, they usually allow students with the highest grades their pick of the best jobs.

Past treatment of and current payment for teachers also continue to cast a long shadow over the education system. Although basic wages for teachers at all levels have gone up dramatically on paper, and primary and middle school teachers are now set for another 10 per cent rise, teachers have no way to earn the fat bonuses received by production and service workers.

Thus, a professor at Peking University is likely to earn less than a taxi driver. This runs counter to the traditional Chinese sense of priorities and has caused some students to go to great lengths to avoid jobs in education.

It was perhaps inevitable that the cutbacks in higher education during the Cultural Revolution, followed by a complete reversal of educational priorities, would result in false steps, and it seems fair to say that the China's current educational institutions are far better suited to its needs for modernisation. But the benefits of the extra resources that the Chinese are pouring into their educational system will take many years to be fully felt, and until then the lack of trained manpower will act as a brake on the entire modernisation drive.

Steven Butler

Qinghua University

Exciting period for researchers

IT IS hard for Prof Cui Guowen and Prof Fan Chongcheng to contain their enthusiasm as they show a visitor through room after room of sparkling new electronic spectroscopes, lasers, electron microscopes and roomers with hundreds of computer terminals.

The tour is through Qinghua University in Peking, one of China's top engineering universities, where Prof Cui is Associate Professor of Materials Science and Prof Fan teaches and conducts research into information electronics, and is an expert on fibre and integrated optics.

Just over a decade ago, during the Cultural Revolution, both men were barred from conducting any research at all. But the past decade has been one of almost unparalleled good news for China's elite universities. Money has rolled in from the Government, anxious to turn out a cadre of scientists and technicians capable of leading China's modernisation drive.

International support has been forthcoming, including a World Bank loan to fund the purchase of Qinghua's computer facilities. China's own factories and industrial bureaux have been anxious to tap the expertise of Qinghua's scientists and engineers and now provide a major portion of funding for applied research.

The rebuilding of China's university system from the devastation of the Cultural Revolution was a slow process. The national university entrance examination was revived in 1977, and a formal degree system, including master's and doctorate degrees, was instituted in 1981.

Qinghua has now expanded to include 26 departments offering master's degrees in 83 fields, and doctorates in 64 fields. Some 10,800 undergraduates are currently enrolled, along with 3,000 graduate students, and 3,000 continuing education students.

The vastly increased support for high education, however, has not resolved all the questions about the proper role the university should play in China's development efforts.

The outbreak of student demonstrations a year ago raised the spectre again of introducing political criteria for admitting students and stepping up political control of campuses.

This appears not to have taken place, however, and Prof Wu Chi, an automation specialist, perhaps best sums up the consensus. "You can't begin to talk about the political qualifications

of high school students," he says. "They do not even know what is Communism, socialism, or capitalism."

The professors support the notion that students should get out of the classroom for some practical experience. "We don't think that the door-to-door policy for graduate schools is good," says Prof Zhou Zhao-ying, director of teaching affairs. Instead, Qinghua encourages students to leave university and work in a production unit for a few years before continuing studies, and will hold open a place for a higher degree in the interim.

China's new materialism has placed other pressures on Qinghua. For one, the university's five-year course of studies, originally instituted to raise training standards, now appears to delay the time when students can get out of school and earn a salary. Pressure to reduce this to four years is rising.

There is also concern about whether sufficient funds are being allotted for basic research, with all the effort to apply scientific and technical expertise to China's modernisation. The principle that basic research is absolutely vital for the long-term development of technology is accepted, but debate continues over whether a proper mix has been struck in China.

Qinghua assesses a charge on all outside research grants, which are inevitably for applied research, to cover general administrative expenses and put some aside for basic research. But some believe this is not enough.

"For a university like Qinghua, I think we should get more funding for theoretical and basic research," says Prof Wu. "It is very hard to get funds for basic research. For professors at other universities it is worse."

The reform process will inevitably go on as the universities adjust to changing political and social pressures. But the underlying good news story is that at least within the university gates the role of intellectual development, of debate and criticism is now well-established.

Chinese intellectuals are engaged in a wide-ranging search for a solution to the country's development problems, and the search does not stop at China's borders. It is an exciting period, with intellectual freedom growing ever stronger as self-confidence among China's professional thinkers matures.

Steven Butler

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David Dodwell on the 'lost territories'

Market fall offers long-term benefits

HONG KONG'S spectacular stock market crash in late October may have tarnished the reputation of the colonial Government, but for Peking the collapse may have done more good than harm.

There was particular irony that in a territory where Peking's actions are so often blamed for triggering anxiety or undermining business confidence, responsibility for this particular debacle could be placed only at the feet of the US markets, local speculators and an ill-prepared colonial administration.

While Sir David Wilson, Hong Kong's Governor, opted to continue a world tour promoting Hong Kong as a centre of free enterprise rather than return to take direct control of crisis management, Xu Jiatun, effectively China's ambassador in the territory, left the Party Congress in Peking to see at first hand how the stock and futures markets were being stabilised.

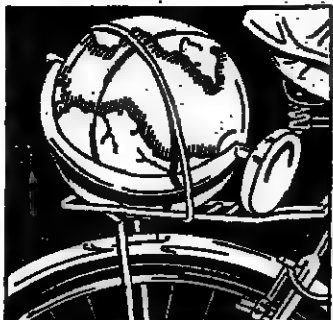
After an informal briefing on the machinations of futures markets from Mr Willie Purves, chairman of the Hongkong Bank, Xu Jiatun took a direct hand in winning Peking's approval for the second phase of the futures exchange rescue. While Peking had predicted the collapse of the stock market, it was not clear that it would come to know more about futures markets than the territory's Governor.

Despite the initial setbacks resulting from the collapse, Peking may also be pleased that the probable long-term outcome will be greater - rather than less - internationalisation of the stock market. Almost certainly, foreign institutional stockbrokers and banks will for the first time win representation on the stock exchange committee. At present the exchange is controlled entirely by local brokers, whose failure to police their own markets unquestionably exacerbated the crisis when it came.

When one examines the hopes China has for the recovery of its 'lost territories', the stock market collapse is more important than at first meets the eye. As Peking's economic reforms consolidate their control, committing the country more firmly than ever to 'opening up to the outside world', so Hong Kong assumes increasing importance, not just as a goose that lays golden eggs, but as a springboard for Chinese investment overseas, and a 'catalyst' for foreign investors to explore opportunities in the mainland.

"China has no interest in a few

Hong Kong, Taiwan and, right, the obstacles to improving the country's image and international relations



extra square miles of socialist soil," says Lu Ping, secretary-general of the Hong Kong and Macao Affairs Office in Peking. "If Hong Kong can retain its capitalist character, that is conducive to Hong Kong, to mainland China and to the whole world. We just hope that Hong Kong people can run Hong Kong well."

"Why should we want Hong Kong to be converted to socialism? We see it as a kind of bridge to the outside world, a bridge to attract foreign investment and technology. Capitalism in Hong Kong and socialism on the mainland is not contradictory," he insists.

This claim begs the question of what would happen to China's promises of autonomy for Hong Kong if it were once again thrown back into a period of xenophobia, or if Hong Kong were no longer a layer of golden eggs. What use today are promises made by the Shah of Iran, or Ferdinand Marcos?

Chinese officials, of course, dismiss this possibility, but anxiety in Hong Kong is deeply rooted in memories of the chaos and xenophobia of the past - and the certain knowledge that if this were to recur after Hong Kong has become Chinese sovereign territory, then Hong Kong would be an early casualty.

This leads to another uncomfortable truth for Chinese officials - that Hong Kong people find little comfort in Deng Xiaoping's carefully devised concept of 'one country, two systems' instead seeking encouragement in signs that China's open door policy is leaning in the direction of capitalism.

Insofar as Hong Kong hearts remain at ease, it is because people see emerging not 'one country, two systems' but 'one country, two systems' with Hong Kong's capitalist system in the ascendant. One wonders whether it is outrageous arrogance or

unflinching faith in the effectiveness of its economic system that prompts a community of 6m people to believe that a country of more than 1bn people will in time dance to the Hong Kong economic tune.

Some will see China's investments in Hong Kong as a statement of faith in the future of the territory, while others regard them as part of a plot to infiltrate its industries. Some see the influx of mainland Chinese officials and the expansion of Peking's diplomatic presence as a valuable effort on China's part to educate its cadres on how Hong Kong works, while others fear it as a deliberate attempt to establish a parallel government.

For some, Sir David Wilson's recent visit to Peking, to discuss the findings of a summer-long survey of public opinion on political reform, was evidence of a Government fearful of making any move without first winning Peking's approval. But others say this was a sensible attempt to keep Chinese officials abreast of Hong Kong Government thinking, and to continue the process of political education that is essential if a smooth transition to Chinese sovereignty is to be possible in 1997.

At present, there seems to be little prospect of reconciling the two perceptions, which may always remain a matter of having faith or lacking it. This has not prevented fierce debate over political reform, and a conviction on the part of many that the Hong Kong Government has deliberately obfuscated issues as to prevent a politically embarrassing call for direct elections to the legislative council next year.

The fact remains that for those with faith in China's goodwill, whether or not Hong Kong has direct elections is hardly critical, while for those who live in fear of the transfer of sovereignty, direct elections cannot protect them from the oppression they hope to keep at bay.

Officials like Lu Ping continue to offer sweeping assurance that no officials will sit on the legislative council, that 'not even one' official will be dispatched to Hong Kong in 1997, that the chief executive who will succeed the Colonial Governor will be appointed or elected from among Hong Kong people. 'The legislature will be a real legislative body it is now,' he says.

"China will never form a second centre of power - neither now, nor after 1997," he promises, in response to claims that Chinese officials are in the process of building up a 'shadow' government. Such claims will almost certainly amount to the joint liaison group - tasked with the task of ensuring a smooth transition - moves into a permanent home in Hong Kong in July next year. With it is likely to come a substantial bureaucracy from Peking that some will almost certainly see as a surrogate government.

It is often said that Peking would never renege on its commitments over Hong Kong because of the negative effect on its ambitions over Taiwan. But that may be a simplistic view. Of course Hong Kong has something to do with the problem of Taiwan, says Lu Ping. 'But we are considering the interests of Hong Kong first, and the fact is that if we can keep Hong Kong prosperous and stable, then it will play a more and more important role in the development of China.'

The recent relaxation in relations between China and Taiwan has not altered this, since it appears to have more to do with Taiwan's domestic politics than with any breakthrough linked to China's united front efforts.

Peking has nevertheless not been slow to lay down welcome mats, and win what propaganda points it can as tens of thousands of Taiwanese make plans to visit the mainland for the first time in almost 40 years.

The thaw, which has also opened the door to direct trade for the first time, reflects Taipei's greater willingness to respond to democratic pressures in the country - a sign of growing political confidence at home and overseas - and increasing affluence, with more and more people wanting to travel overseas.

Fiercer tests of political strength are likely to come in 1989, when the Asian Development Bank holds its annual meeting in Peking for the first time, and in 1990, when Peking is host to the Asian Games.

As one foreign observer notes: 'It may take 100 years, but from the mainland point of view, there is really no downside at the moment. There are no signs of any all-out effort to isolate Taiwan, but perhaps that is because the Chinese are very patient people.'

CHINA'S CAREFULLY constructed path towards improving its international relations and cultivating its image of a peaceful, neutral and non-interventionist world power has been littered with obstacles during the past year.

But while attention focuses on the boulders which have fallen across the main roads to Washington and Moscow, some smaller difficulties are finally being swept away.

The principal problem has been the outbreak of verbal hostilities between the US and China over Tibet, the Gulf War, and trade protectionism.

In the longer run the growing pressure for protectionism within the US is likely to be the greatest of these obstacles for China - as for many other trading nations. The Sino-US textiles agreement expires at the end of this year and negotiations throughout 1987 on new quotas and categories have failed. Although the Chinese think they can reach a compromise with the Washington Administration they are not sure it would be acceptable to the increasingly protectionist US Congress.

Congress has also been at the heart of the difficulties over Tibet where China suppressed demonstrations in support of a return to independence under the rule of the Dalai Lama, who has lived in exile in India since China annexed his country.

In a wide-ranging interview with the Financial Times, Mr Wu Xuequan, China's Foreign Minister, said: 'The gross interference in China's internal affairs on the question of Tibet by members of the US Congress has already aroused strong indignation among the Chinese people.'

Although he reserved his main complaints for Congress Mr Wu said the US Government had not only failed to do anything about this 'interference' but had also tried to establish a link between the disturbances in Tibet in October and human rights in the region. 'If the US makes no change on this it will affect the development of Sino-US relations,' he warned.

However, behind the rhetoric, both China and the US are anxious not to destabilise their relationship. An example of the importance attached to the links

with Washington is China's reaction to charges by the US that Chinese arms have been used in the Gulf and that at least one Chinese Silkorm missile has been fired against a US vessel in the region.

China vehemently denies supplying arms to the Gulf although the US is understood to have photographs showing Chinese missiles being loaded onto a Chinese ship and unloaded off the same identifiable ship in Iran. But while resisting the US claims and rejecting complaints that Chinese arms have turned up in both the Philippines insurgency and the Sri Lankan conflict, Peking has decided that arms sales, whether direct or indirect, are proving too disruptive to its diplomatic goals. It is particularly concerned that the US has suspended the review of liberalisation of exports of high technology to China because of the Gulf incidents.

Mr Wu admitted that control of arms sales had been too lax. 'We shall adopt stricter measures,' he said, adding that China supported the UN Secretary-General's efforts to mediate and that if those efforts failed China would support any other measures agreed in the Security Council. 'An arms embargo would present no difficulties for us.'

Similarly, while China continues to maintain a robust line about the lack of progress on the three obstacles to improving relations with the Soviet Union, there has been considerable movement on some of the issues involved. The so-called three major obstacles are the Soviet-backed Vietnamese occupation of Kampuchea, the Soviet troop concentrations along the border with China and the Soviet occupation of Afghanistan.

Foreign relations

US links are crucial despite the rhetoric

There has been some progress on all three in the past 12 months and significantly Mr Wu concentrates his concern on the Kampuchea impasse.

'The fact is that there has been no substantive improvement. There has been some change in the wording and terminology used by the USSR in recent years on the Vietnamese occupation of Kampuchea, reflecting the fact that the Soviet Union is now prepared for a political settlement. But substantial differences remain. Vietnam must withdraw under international supervision and a government of national reconciliation must be established with Prince

There has been movement on some of the obstacles to improvement of relations with the Soviet Union

Norodom Sihanouk as its real, and not just symbolic, head,' Mr Wu said.

But for the first time since the Vietnamese occupation nine years ago Prince Sihanouk and Mr Hun Sen, Prime Minister of the Heng Samrin Government in Phnom Penh, have met each other. Shortly before their meeting in France, earlier this month, a vice foreign minister of Laos made the first visit to Peking for several years (seeing Mr Wu immediately after his meeting with the Financial Times). Laos has very close ties to Hanoi and the discussions are thought to have concentrated on Kampuchea.

Vietnam has indicated its willingness to withdraw in 1990 but has not said what sort of government would be left behind. China thinks 1990 is too late and is determined that a Soviet puppet regime such as that currently in office in Afghanistan should not be installed.

But there has been more movement in the last three months than in the last nine years and, significantly, Deng Xiaoping, China's paramount leader, recently repeated his offer to visit Mr Mikhail Gorbachev, the Soviet leader, anywhere in the Soviet Union once the obstacles are removed. Mr Gorbachev immediately responded by saying that any difficulties yet to be resolved should not prevent China and the Soviet Union establishing a dialogue 'at the highest level'. Mr Deng, who is 83, has noted that such a contact should occur in the next year or two because of his age.

The other two obstacles are smaller. Tension on the 7,500km-long Sino-Soviet border, the longest border in the world, has receded and the Soviets made a gesture by pulling some troops out of Mongolia, although only a few and these from the northern rather than border region. Afghanistan has turned into a bigger problem for Moscow than for Peking and Mr Gorbachev is probably more anxious even than Mr Deng that Soviet troops should be withdrawn. A token number has gone and negotiations are under way in Geneva to try to establish a timetable for full withdrawal and the trickier question of the composition of a new government.

Meanwhile relations with the Soviet Union on other fronts have improved significantly. Trade has increased sharply and

the two countries have started to seal joint agreements covering areas adjacent to their common borders. For example, both countries have agreed to share the waters from the Argun and Amur rivers which constitute part of their common border in the far north. Both sides will benefit with flood prevention and hydro-electric schemes by 1992.

There has also been some progress recently in the long-running dispute between India and China over the border in Arunachal Pradesh in the remote Himalayan region, where both sides repeatedly accuse each other of making cross-border forays. In June Mr Liu Shuqing, China's vice foreign minister, who is often tipped to succeed Mr Wu if he changes jobs at next March's annual People's Congress, said the only way to lower tension was for India to withdraw its soldiers. But last month both sides were more conciliatory and said they were determined to find a 'mutually acceptable solution'. At the same time Mr Rajiv Gandhi, the Indian Prime Minister, said he wanted to renew and revitalise relations with China.

Mr Wu said an invitation had been issued for the Prime Minister of India to visit China when Mrs Indira Gandhi held that position. The invitation stood although it had not been 're-issued' recently.

In spite of the difficulties, slow progress is being made towards China's objective of stable bilateral relations with the US, Soviet Union and India. Its objectives on Macau and Hong Kong are close to fruition and there has even been a slight thaw with Taiwan over allowing visits by relatives.

If gaffes like the Silkorm missile incidents can be avoided in future China will move towards its diplomatic dream: acceptance on the world stage as a 'normal' peaceful member. Foreign strains will then centre on issues like trade protectionism, at the root of current trouble with both the US and Japan, but these are difficulties which affect all trading nations and are therefore regarded by the Chinese as 'painful but normal.'

Robin Pauley



The Bank of China will be part of Hong Kong's skyline

A Chinese Puzzle

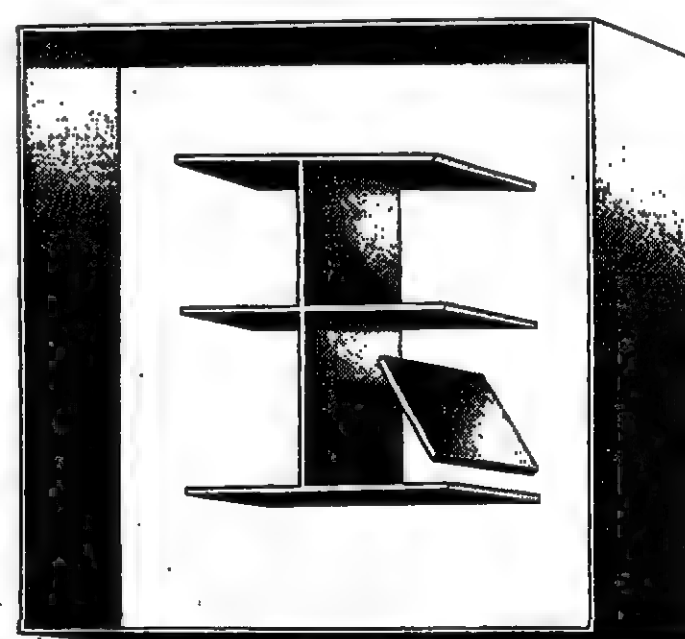
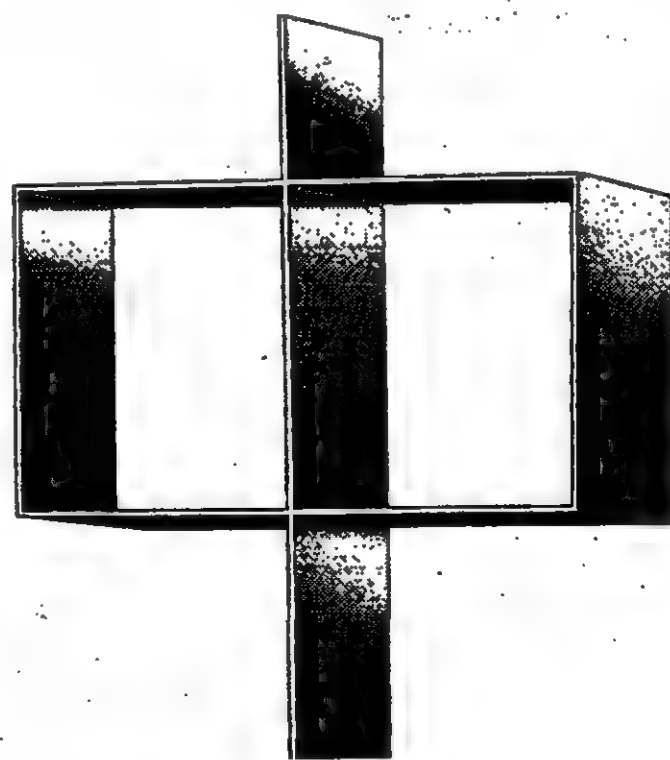


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CHINA 6

The economy is growing but may be overheating, says Robin Pauley

Questions about reform programme

AFTER ALMOST a decade of some of the most far-reaching economic reforms ever attempted in China, citizens of Peking and a growing number of other cities are this month right back where they started: pork and sugar rationing have been introduced and hordes of shoppers have been out panic-buying.

So for the third time this year there are serious questions marks over the reform programme and what it is achieving.

First, in the spring, conservatives returned to the fore in the wake of student riots and tried to slow, if not reverse, the move towards free markets, arguing that bourgeois liberalism, including the pursuit of capitalism, was going too far and certainly too fast.

Then, when it became clear that inflation was starting to soar again as prices of some commodities spiralled, the Government, fearing the social and political consequences of inflation, particularly in the price of food, clamped on a price freeze.

The so-called economic reformers or pragmatists managed to fend off the challenge of the conservatives, consolidating their position triumphantly at last month's Party Congress. But they now find themselves in an extremely tricky corner.

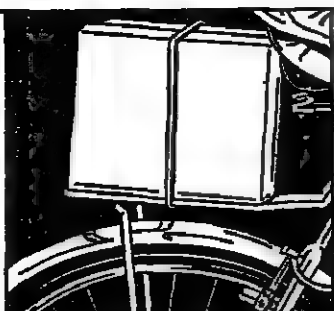
There can be no meaningful restructuring of the economy without price reform, yet many prices seem to remain frozen indefinitely. The market reforms which have advanced furthest have been in the agricultural sector, yet the rising cost of raising pigs and growing corn and rice for lower profits has encouraged farmers to switch to cash crops such as vegetables which can be easily sold on the new free markets.

Rationing the country's most popular meat to 1 kilogram per Peking resident per month revives memories of the bad old days of shortages, food queues and coupons, when many people were without a balanced diet.

So there is likely to be strong pressure for the return of higher subsidies to make pig breeding more worthwhile again and this could spread to other agricultural products for which pricing has become more market oriented - particularly corn as China has had to import substantial quantities from the US this year compared with none at all last year.

Yet although the economy appears to be in considerable crisis and is overheating again in

In the rush to devolve power, too much authority is now missing from the central banking and taxation systems



some sectors, notably construction, the overall picture is difficult to sort out as some fundamentals are performing well this year.

The economy grew by about 10 per cent last year and the figure for 1987 is widely expected to be about 8 or 9 per cent. Foreign reserves are climbing towards \$140bn from last year's low of about \$100bn.

Exports are sharply up: in the first nine months of this year, the value of exports was \$26.6bn, a rise of 24 per cent over the same period last year. The value of imports on the other hand was \$29.2bn in the first three-quarters of 1987, a fall of 4 per cent over the same period last year.

The foreign trade deficit of \$2.7bn for the period compares with \$9bn in the first nine months of last year. The trend appears to have continued during the last quarter and excluding imports that do not have to be paid for in precious foreign exchange China appears to be running a small surplus in 1987, which is a curious position for a major developing country trying to restructure its economy.

But the problems are greater than the strengths. Some are the result of the inevitable lurches bound to occur when a huge backward country of more than 1bn people tries to restructure a moribund centrally planned economy into a modernised market economy.

However, that does not make fear of the political consequences any easier to handle. Inflation is a key example. Officially, consumer prices are rising at around 6 to 8 per cent this year but as the figure for the first half alone was 6.3 per cent most observers work on the assumption that the year-on-year rise will be in double figures. Key food and consumer durable prices seem set to rise about 12 to 13 per cent.

"We are quite backward at gathering statistics in China and the official inflation calculation

is among the worst. It is always underestimated," says Mr Zhu Xing Qing, deputy editor of the influential World Economic Herald in Shanghai.

Every time the market is allowed some room to function prices take off and are quickly clamped. Price rises are needed, however, in many sectors including food, energy and housing costs. If the distortions and absurdly low pricing are to be corrected towards a truer market level.

In some respects inflation is actually desirable as it is one way to introduce the necessary real wage cuts which are needed in many industrial sectors where labour costs are rising dangerously through the payment of bonuses, irrespective of productivity or profitability which are often not improving at all.

China's leaders are all too well aware, however, that it was ultimately the hyperinflation of the 1930s which was the key factor in the fall of the Kuomintang rulers. The prospect of a similar fate probably acts as the speediest brake of all.

Nor does the public reaction to food price rises in Eastern



Song Tingming: new range of initiatives

Europe go unnoticed. Price freezes seem to be as endemic to the new economic era as to the old - most industrial prices have been frozen one way or another for 80 per cent of the last quarter of a century.

Another major transitional difficulty is the number of loss-making, state-owned enterprises which have to be subsidised, draining much-needed resources and enlarging the budget deficit. The proportion of loss-makers is growing - from around 13 per cent of the total two years ago to 20 per cent now because raw material prices are rising, while wages are going up much faster than productivity as retail prices are frozen.

The Chinese have realised that for the next stage of reform to gain momentum they need to find ways to introduce a rational pricing system and managerial autonomy to decide wage levels, what to produce, how to utilise profits and who to hire and fire.

Other essentials are some form of bankruptcy law, which reinforces the results of risk failure, more labour mobility, implying real wage cuts which are needed to choose their work, a realistic exchange rate, enabling foreign exchange certificates to be abolished and an end to the dual pricing system, partly responsible for the recent rapid rise in corruption and black markets.

Most importantly, two serious errors appear to have been made during the reforms so far. In the rush to devolve power to the provinces and reduce central control, too much authority is now missing from the central banking and taxation systems.

The People's Bank of China - the central bank - having delegated too much power to provincial and local banks - is now without enough monetary levers in Peking. Credit and money supply have soared and one analyst says China's money printing presses have been "running red-hot, day and night, for months."

The Bank is to try to rectify the mistake by taking back some powers early next year to put ceilings on credits and loans and bring the money supply to a level 30 per cent below this year's. Western bankers are sceptical, believing that the banking system is not developed enough to achieve these aims so quickly.

A side-effect of the error is likely to be that Madame Chen Muhua, the central bank governor and China's most powerful woman, is likely to be replaced shortly, having failed to retain

her place as an alternate Politbureau member at last month's Party Congress.

The other error has been to give away so many tax-raising powers that the centre is starved of cash. The central government receives just over a quarter of total taxation revenues, which puts it firmly at the bottom of the world league.

It collects no taxes at all from two provinces. Belatedly, consideration is being given to the introduction of a new federal tax next year but no decision has yet been taken and whatever form it takes it is likely to be deeply unpopular and, initially, ineffectively collected as there is no fully developed inland revenue system.

This array of problems does not mean that China is giving up on its economic reforms and indeed a new range of initiatives from levies on unnecessary construction projects to corporation tax and the introduction of estate agents is due next year, according to Mr Song Tingming of the Commission for Restructuring the Economy.

The problems do mean that the restructuring effort is going to be much longer and more difficult than the Chinese imagined even as recently as last year. But it is clear from recent interviews and from the Party Congress that they mean to stick at it and on most fronts - except price reform - they are edging forward in the direction in which they want to go.

The Chinese refer to the transition as being the primary stage of socialism rather than the true socialism to which they aspire. This euphemism gives them, as they openly admit, an excuse to try out anything and everything on a "sock it and see" basis. But they have lengthened their horizons and refer to this stage as taking until the middle of the next century.

Mr Zhu says: "The problem here is that it is like having a baby. You cannot do it naturally without pain. It is part of the process. But every time we get any pain here we stop it because we do not want to hurt anyone."

But he adds a touch more optimistically: "On the other hand who would have predicted when the reforms began in 1978 that by 1988 we would have got as far as we have in spite of the setbacks?"

Virtually all commentators agree that the answer to that is "Nobody."

Banking and finance

Radical changes to hold inflation



Ren Junyin: rationalising the surpluses

"I'm a professional in the financial sector, not in personnel," says Mr Ren Junyin, deputy secretary-general of the People's Bank of China, when asked if Madame Chen Muhua, president of the People's Bank, will be leaving her job. Madame Chen, in her late 60s, was a political appointee.

"That question is for the State Council," he adds drily. Madame Chen may prove a high-level victim of China's latest round of price rises. Her position illustrates the highly political nature of China's banking reforms and Peking's sensitivity to inflation.

Madame Chen lost her post as a Politbureau member at the 13th Party Congress last month, and now seems likely to fall further. China's central bank is continuing radical changes in the banking system in a fierce effort to keep inflation under some kind of control and raise adequate funds for key investment projects.

Official Chinese estimates for inflation are in single figures, but no one believes them. According to the People's Bank, the money supply has grown by about 25 per cent during the past three years, but all the statistics are thought to be inaccurate.

Since 1978 a huge structural change has been under way in China's money system. Before then, the rural areas where 80 per cent of the people live were barely monetarised since the peasants mostly supplied their own needs.

"Now 60 to 70 per cent of the grain grown is sold on the market," Mr Ren says. "The countryside absorbs 70 per cent of the money supply now," he adds, indicating a remarkable change.

At the same time, the price reforms, delayed though many are, have boosted currency in circulation. Prices in China of key commodities like coal and steel were fixed in the 1950s and bear little relation now to real costs.

The Peking Government has not had the nerve to allow all prices to float, but a portion of almost all output is now sold on a semi-free market.

Wages and bonuses have gone up without a corresponding rise in productivity. This year it is estimated that bonuses rose by 10 per cent in the first half and the rate may be even higher in

the second. Wages are expected to rise faster, too. Decentralisation of decision-making has also had a big effect. In effect, the People's Bank has lost control of the macro-economy. Local enterprises now have the right to keep money stocks which the Bank and the Ministry of Finance cannot get their hands on.

A further problem is the growth of credit outside the budget. The state controls about Yuan 180bn in budget spending, but the independent enterprises raise about the same amount on their own. With a total of about Yuan 150bn investment altogether in one year, Mr Ren points out, the economy soon becomes overheated. This total is already way above target.

Still more ironic, China cannot raise investment for the key projects such as railways which must be built before the country can really reach take-off.

Consumer spending remains excessive this year because of the power delegated to managers to decide on profits, wages and bonuses. The total volume of retail sales will rise by an estimated 10 per cent.

It is now crucial for China to try harder to control the money supply. In the coming year, the Bank will allow a 10 per cent growth, while the national economy is planned to grow at 8-10 per cent. The gap should be filled by expected price rises.

"We will also focus on rationalising the surpluses and shortfalls between the various enterprises," Mr Ren says. "The important thing is to provide enough funds for plant making key products, and give less to those which have unmarketable inventories." For example, the number of unsold, low-quality bicycles in stock is said to be 8m.

Controlling credit next year is crucial. The Bank plans lending quotas, higher interest rates and larger reserve requirement ratios for the retail banks. The People's Bank has already increased this by 2 per cent, to 12 per cent last month.

There will be other steps. One will be to try to see that enterprises are creditworthy. Few bank staff are trained yet to assess the viability of industrial or commercial projects, and in any case most find it hard to stand up to tough officials bent on getting their money.

Another step will be to expand China's money markets. "Our problem with structural adjustment is mainly a problem with the efficiency of investment," Mr Ren says. "We can't solve this by administrative means, it must be done by market mechanisms."

There are now 27 cities, such as Shenyang and Wuhan, which have already opened financial markets," he says. In fact, these simply sell bonds over the counter, but next year Mr Ren indicated secondary markets would be set up. "And we'll allow enterprises to get involved directly. They won't need to depend on the People's Bank or the Ministry of Finance."

Local governments will be asked to take on major projects. They will be allowed to issue bonds in the market specifically for these. "And we'd like to channel the money which at present goes to light or service industries into them," Mr Ren reveals.

Plans for next year include selling treasury bonds by the People's Bank to control inflation. A new law allowing the bank to do this is on the agenda. But the speed with which these quite controversial reforms can be implemented depends on how powerful reformist politicians are. More than last month's Party Congress before any predictions would be wise.

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Steven Butler assesses the trade scene

Import cuts curb the deficit

CHINA-WATCHERS will surely remember 1987 as the year when the country's trade officials stomped their feet very hard and finally got results.

The trade deficit, which hit \$13bn last year according to customs statistics, came spiralling down as the Government squeezed hard to choke off the flow of imported automobiles, televisions, refrigerators and other consumer durables. Also on the hit list were electrical goods and machinery that are manufactured in China in quantity, but that previously were hard to obtain because of China's poor system of distribution. Japanese exporters to China took the hardest knocks, with the bilateral Japan-China trade deficit alone plunging to a mere \$600m by the end of October, compared with about \$7.5bn for the whole of 1986. Economists in Peking said they expected the trend would continue next year, raising the possibility that China would move to a rough balance in trade by the end of 1987, and move into surplus in 1988.

This, in turn, raises the possibility of some relaxation of stiff foreign exchange controls. "The foreign trade sector is now the most centralised part of the economy," says a Peking-based diplomat, commenting on the success of Government efforts to take back powers that it previously passed to local officials.

Any move to a balance of trade surplus, however, is seen as strictly temporary in view of China's need for imported capital equipment and technology to support its economic development efforts.

Economists say that the abrupt, and fairly extreme, short-term reversal of China's trade position reflects the blunt instruments that the Government uses to control trade flows. Blunt or not, Mr Shen Jueren, assistant minister at the Ministry of Foreign Economic Relations and Trade, says the Government is happy that precious foreign exchange will no longer be spent to the same extent on consumer goods, and this could augur well for high technology and capital equipment producers throughout the world who are aiming to sell to the China market.

The \$29.22bn import bill for the first nine months of the year, down 3.8 per cent on the previous year, compares with a robust 23.9 per cent rise in the value of exports to \$26.50bn. Textiles, garments, yarns and carpets moved well ahead. Coal exports increased by 32.7 per cent to 8.9m tons, although crude oil exports fell by 8.7 per cent to 18.8m tons.

Grain exports fell off by a quarter to 5.6m tons, with grain imports soaring by 74 per cent to 11.2m tons. China has traditionally bought and sold grain in

international markets to take advantage of price differentials, and to sell rice in exchange for wheat. It moved from a net grain export to a net import position in 1985 and is expected to be a net importer this year.

In view of the difficulties facing China's grain production, traders expect China to be a major buyer for the foreseeable future. The US Feed Grain Council, which promotes the development of commercial livestock production, says China is now importing feed grains at a rate of about 3m tons a year. This is expected conservatively to rise to over 5m tons in coming years, and could go up even more sharply should the Chinese Government decide to improve diets by increasing the availability of meat.

Also rising sharply on the import side this year were machine tools, TV picture tubes, vegetable oil, sugar and rubber. Automobile imports fell by 45.5 per cent to 53,800 vehicles. If there is any clear beneficiary of recent trade trends in China, it is Hong Kong.

Hong Kong has now dispelled for good fears that its role as a clearing house for Chinese trade would fall as China opened to the world.

"Everything is working to make Hong Kong bigger as a distribution centre for Chinese goods," says Mr Francis Lo, dep-

uty executive director of the Hong Kong TDC. Some 40 per cent of China's exports now enter Hong Kong, with nearly three-quarters of that re-exported. Hong Kong's total imports from China rose 47 per cent in the first nine months of the year, while re-exports increased by 69 per cent, according to Hong Kong Government statistics.

Hong Kong's role as a broker for goods entering China has similarly shot ahead. Re-exports to China rose by 50 per cent to \$5.34bn, while domestic exports increased by 62 per cent to \$2.56bn. The advantages of trading through Hong Kong lie in the colony's vast superior port facilities, soon to include the world's largest container handling capacity, and a superior international communications capability.

The colony's businessmen have the experience of dealing in international markets that cannot be matched in China itself. Other than Hong Kong, China's direct bilateral trade with all other major trading partners, according to Chinese customs statistics, declined, by 8.3 per cent in the case of Japan, 8 per cent for the US, and 5.4 per cent for the EC.

The figures, however, are deceptive since they do not take into account indirect trade through Hong Kong that would eventually arrive at these destinations.

The Chinese have shown greater sophistication in taking advantage of the structure of US trade restrictions, particularly in textiles and clothing, to improve their export performance. Since US quota import restrictions are measured by the piece, China has concentrated on producing a higher value-added garment. The Chinese, however, had filled many of their US textile quota limits early in the year, and the improvement in their trade position with the US was not expected to continue as strongly to the end of the 1987.

Both the US and China were preparing for what they hoped would be a final December negotiating session to hammer out a new textile trade agreement, which would take effect at the start of the new year. The Chinese have accepted the principle that the rate of growth in textile exports to the US will have to be curtailed, and that more categories of goods will fall under the rubric of the agreement.

Foreign investment

Currency the main problem

FOREIGN DIRECT Investment in China is on the rise once again. The turnaround is hardly dramatic, but even a slight improvement may come as a surprise to anyone who has followed the long trail of woe that has greeted many of the big Western investors hoping to capitalise on China's huge and growing domestic market.

Even Chinese officials admit that only a third of joint venture enterprises can be considered to be in reasonably good financial health - another third are said to be in serious trouble, losing money and unable to balance foreign exchange requirements.

In response to this difficult situation, the China International Trust and Investment Corporation (Citic) last month announced formation of a troubleshooting body to sort out problems, or even close down joint ventures in trouble.

By the end of September, according to the Ministry of Foreign Economic Relations and Trade (Mofert), 1,165 foreign investment projects had been approved, an increase of 28 per cent, with realised investment up 30 per cent to \$940m. On an approval basis, the year-on-year figure was unchanged, at \$2,660m.

Mr Shen Jueren, Vice Minister at Mofert, also said that the quality of investment had improved, with more coming in high tech-

nology and export areas that the Government has encouraged. Investments in service industries, particularly hotel construction, had fallen off.

"I think that since last year our investment climate has greatly improved," says Mr Shen. "But I can't say the investment climate is the best in the world."

The change is largely confirmed by the foreign community in Peking. "On balance, the situation has improved," says a

oriented industry, as in Singapore for example, but China obviously does not have these attractions.

The foreign technology that China would like to attract does not necessarily come in industries where China can justify seeking to build volume exports.

None the less, China has moved a little over the past year to ease the foreign exchange shortages affecting many enterprises that are otherwise

import a similar item. This has helped bring foreign exchange to the once deeply-troubled Peking Jeep plant. Shanghai Foxboro and China Schindler are also taking advantage of the scheme.

In addition, personal taxes on foreigners were slashed by 50 per cent over the past year.

These changes have eased some of the pressures on joint ventures but have not solved the deep-seated problems. For one, a foreign investor cannot yet get prior guarantees of being able to participate in the import substitution scheme before signing on the dotted line, and not all enterprises have been able to take advantage of the scheme.

Investors still complain of a general lack of transparency in foreign investment rules and of the difficulty of ever knowing precisely what sorts of approval they really need before a project can go forward.

Costs of services can still be outrageous. "There is still a 'soak the foreigner' mentality," says a diplomat. Clearly, the bloom has come off the foreign investment sector, despite the increases this year in investment totals. But it is also plain that while foreign investors and the Chinese authorities often do not see eye-to-eye, both sides are approaching investment difficulties with increasing realism.

Steven Butler

Personal taxes on foreigners have been slashed by 50 per cent in the past year

Peking-based diplomat.

The main sticking point for most foreign investors in China has been the difficulty of earning foreign currency, both to pay for imported parts and materials and to allow for profit remittance. In principle, China demands that all joint ventures earn their own foreign exchange through exports.

The Chinese do not accept the logic that has governed export development strategies in virtually the entire world, namely that exports tend to grow on the back of a strong domestic market, particularly for more sophisticated products. At a minimum, transportation and other infrastructural support ought to be sufficient to justify an export-

healthy. One way this is done is to allow joint ventures with excess foreign currency, such as hotels catering to foreign tourists, to exchange foreign currency for Chinese yuan, which they need to pay staff and for other operations. This allows companies making a profit in the domestic market to exchange this at a discount for foreign currency, on a limited scale.

A second method is to allow joint ventures to participate in an import substitution scheme when a shortage of foreign exchange is seen as a temporary problem during a start-up period. In these cases the company may sell products domestically in China for foreign exchange that would otherwise be used to

Borrowing

New instruments employed

CHINA'S GROWING prominence as a borrower in international markets took a big step forward in June when an agreement was signed with the British Government to settle outstanding property claims. This opened the door to China's fund-raising activities in London, which kicked off in October with the issue of \$200m worth of five-year bonds by the Bank of China.

The market was again tapped in early December by the China International Trust and Investment Corporation (Citic), which borrowed in the European market for a total of ¥150m.

China's total foreign borrowings are now believed to be in the range of \$300m, and this is slated to rise to \$400m under the

Seventh Five-Year Plan, which ends in 1990.

Mr Shen Jueren, assistant minister at the Ministry of Ministry of Foreign Economic Relations and Trade, says that China is very comfortable with this level of foreign borrowing, and the community of international bankers generally concurs.

China still aims to fill as much of its borrowing needs as possible through concessional loans and these may account roughly for half the total. But it is also showing increasing sophistication in a range of newer-type commercial instruments.

Citic has just arranged a \$200m revolving facility in Hong Kong that will allow it to issue

Eurobonds as needed, that will in turn be auctioned by the banks involved and allow Citic to obtain the keenest rates.

China has now raised over \$3bn in foreign bond markets. These have been heavily concentrated in yen-denominated instruments, which comprise some two-thirds of the total. While China has been able to obtain fine rates in Tokyo, it has obviously lost heavily on foreign exchange fluctuations.

US dollar bonds account for only about 25 per cent of the total, although some 70 per cent of China's foreign exchange transactions are in dollars.

The next frontier for China's fund-raising would be the US market. But this will have to

await settlement of legal wrangles arising from debts incurred by the previous Chinese Government that the current Government does not honour.

Although most observers think that China's foreign debt is fully manageable, there is still a bit of haze over just how big it is. All foreign loans must now be registered with the State Administration of Foreign Exchange Control, but this agency has a weak administrative structure and is not believed to be yet able to produce reliable statistics.

For this, it is thought, China still turns to IMF data.

Steven Butler

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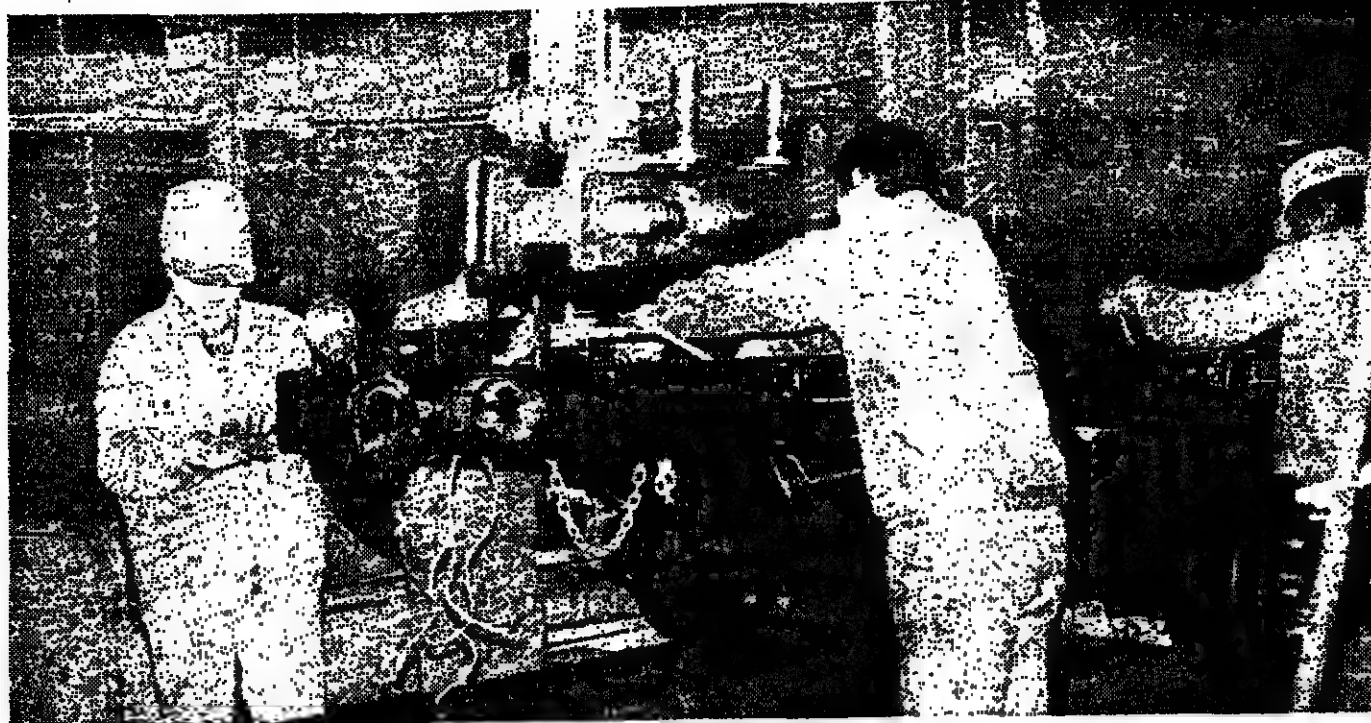
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CHINA 8



Changchun's No 1 automobile works, the cradle of China's motor industry

Changchun automobile factory

A puppy, let off the leash

LI ZHIGUO, who heads China's famous No 1 Automobile Works in Changchun, in the country's North-East, may have white hair and 14 years behind him as the factory's boss, but in the wake of current industrial reform, he has the air of a puppy just let off its leash.

"Before 1978, we just had no authority. If we wanted to buy even ice-cream, we had to make an application to the state," he recalls. "It was easy to be a director in those early years. No matter whether we made good lorries or bad lorries, they could all be sold."

The new responsibilities that have begun to fall on him as Peking has first separated party control from factory management, and more recently begun to devolve decision-making power over capital investment, production planning, pricing and sales policy, appear to have been shouldered with relief rather than alarm.

"With greater competition, we have to pay more attention to quality, but we can save our own money to fund expansion of our production," he comments. "If we make more money, we can take greater care of the welfare of our staff, whereas before 1978 everything we earned was turned over to the state."

Such radical change at the

Changchun works is more than usually symbolic because of the complex's unique place in China's post-liberation history. This was China's first automobile factory, completed in 1956. It was then seen by Mao Zedong, and the Chinese people as a whole, as a potent symbol of the country's new-found pride after more than a century of colonisation and crippling civil war.

"Our factory ended the history that said China cannot make an automobile," says Li Zhiguo. The factory's main product, a four-tonne lorry, was inevitably called the "Jiefang", or liberation truck. Since 1956, more than 1.2m have been made, and half of these are still lumbering along China's roads.

However, over the 30 years of political upheaval, the Jiefang that was once a symbol of China's technological emergence has become a dinosaur, demonstrating the shortcomings of an inflexible command economy.

Attempts to break new ground were frustrated continuously during the 1960s for entirely political reasons. Instead of being allowed to develop a new truck, the No 1 automobile works was forced to help to set up a new works - the No 2 works - in Wuhan in the middle reaches of the Yangtze River. It lost 5,000 skilled workers, and all of the

momentum to upgrade its own technology.

Only since 1978, has the changed political mood allowed the likes of Li Zhiguo to resurrect plans to bring the factory's output out of the 1950s.

On January 1 this year, the factory began production of a new Jiefang truck, at last abandoning the original model to the industrial history museum where it now belongs. More than 60,000 trucks will be turned out this year, and about 88,000 next year.

The factory has also just won approval to manufacture a new saloon car, which will resemble a Toyota Crown, and will be powered by a Chrysler engine. This new car - the Hongqi, or Red Flag - will also replace one of China's most revered of industrial brontosauroids - the original Hongqi limousine, which today is the prerogative of China's topmost leaders and most important foreign visitors.

When production of the new car begins in 1990 - providing domestic competition at last for the Santana being produced in Shanghai in a joint venture led by Volkswagen of West Germany - just 30,000 will be turned out. But this is expected to rise to 150,000 by 1995, and 300,000 by the year 2000.

At the 15,000-strong factory, new production lines are being

installed, with technology being imported from dozens of countries worldwide for endurance testing, chassis painting, brake and clutch systems and many other components.

Mr Li now has the power to reward improved productivity with substantial bonuses, to reform management and production methods, and to sell a substantial proportion of output outside the factory's state quota. Profits earned from these sales are to be used for new capital investment.

The plant has its own export department, and can retain foreign currency earned through the sale of lorries, or parts. Already, it has won orders from the World Bank for contracts involving 513 trucks.

"We have to improve quality and cut costs - and the money we save we can use for future production. Different salaries will be paid for different jobs, and salaries will rise as output increases," says Mr Li.

After so many years of being shackled by political imperatives dictated by Peking, these developments suggest a change for China's massive state industries - "liberation" indeed, even if two decades delayed.

David Dodwell

CHINA MADE 70m watches last year - a large proportion in factories in Shanghai, Tianjin and Dandong. Today, 60m of them are still in stock, and are likely to stay that way. The factories continue to pour out watches at the same pace as a year ago.

Many of China's factories manufacture for the rubbish heap. Out of a total of 40m bicycles to be made this year, only 30m will be bought - though there are long waiting lists for quality brands like the "flying pigeon".

The manager of a factory in Wuxi in Jiangsu that made shirts for export had no idea of the export price for his shirts, no idea of how such a price would compare with the price of a similar shirt made in a factory in Korea or Taiwan, no idea of where they were sold, or of their reputation for style or quality.

He is typical of all small-to-medium exporting companies in China that are asked by an import-export corporation to supply a particular number of products by a certain date, and are paid in local currency for the work. Whether the goods are being sold at a loss, or whether the factory is making out on a share of substantial profits in foreign exchange is an issue that passes him by.

Such a factory manager who is going to happen to store away full of bursting with rusting coiled steel, and he is likely to shrug philosophically. He is paid a guaranteed price for his output, and what the state does with the steel is not his concern.

Such an attitude is not universal in China, but it is endemic enough - particularly in the dominant state sector - to have attracted serious government attention. Reforms have begun on an experimental basis that could go to the root of the problem. But at the same time they will create a revolutionary change that China's industry has not seen in 30 years.

"We would like to use market forces to regulate production and products," says Hu Zongruan, a director in Peking's light industry ministry. "The problem is the market is so big and production so limited that most products can be sold even when the quality is not good. If they can't be sold in the cities, where buyers are becoming more discriminating, then they can still be sold in the countryside."

While China's leaders grapple the nettle of rural agricultural reform almost a decade ago, with a dramatic impact on the productivity of the country's farming sector and on the living standards of China's 800m rural population, they have baulked every time urban industrial reform has been discussed.

The labyrinth of obstacles linked with reforming the state planning process - ranging from

Industry

A labyrinth of obstacles to market forces

the qualms of party ideologues and reluctance among political and party leaders in factories to loosen their hold on power, to the practical problems of removing subsidies, creating labour mobility, rewarding effort and efficiency, or introducing marketing or product design capability in the factory - have daunted even the most convinced advocates of change.

Shanghai's watch-making factory won approval just a month ago from the Light Industry Ministry to reduce its prices - in spite of fierce resistance from Tianjin and Dandong, where managers insisted that lower factory-gate prices would make them unable to pay taxes and profits to the state.

A factory in Peking that used to make "swallow" brand bicycles has been closed, and its workers transferred to a nearby food processing plant.

It is Zongruan is emphatic that companies that continue to produce unsellable goods will have licences withdrawn and their supply of raw materials cut off. To drive its point home, the ministry is mounting an unprecedented exhibition in Peking this month of examples of Chinese industry's shoddiest output.

The implications of such moves are immense, going straight to the heart of Communist China's most cherished political commitments - for example, the supremacy of state economic planning, the guarantee of lifetime employment and egalitarianism.

Nevertheless, policy planners in Peking appear increasingly ready to acknowledge that radical measures are needed if the problems that dog industry - shortages of raw materials and energy, poor quality production, immense wastage of resources - are to be resolved. As a first step in reducing state control, "guidance planning" has replaced "mandatory planning" from the centre.

Officials in Peking and factory managers alike have begun to accept that price distortions, limited competition, the absence of an effective labour market and poor financial discipline are among the most serious obstacles to improvement.

In some areas, such as the

Pearl River delta around Hong Kong, and in the Yangtze delta hinterland to Shanghai, the impetus provided by household and collective enterprise, much of it funded from the profits of agrarian reform, has begun to spawn thousands of dynamic small industries.

Household enterprise in the "Suwuchang" area which comprises Suzhou, Wuxi and Changzhou in Jiangsu, now accounts for 70 per cent of industrial output. These small factories pay full market prices for their inputs, and are fully accountable for any losses or profits.

However, the buoyancy of this sector is unlikely to be sustained unless the problems of China's giant state industries, concentrated in the north-eastern provinces of Liaoning, Jilin and Heilongjiang, are resolved. For it is these factories that ultimately supply the small household enterprises with their raw materials.

The recent emergence of radical economic experiments in the north-east has therefore aroused hope that core problems are at last about to be tackled.

A widely publicised bankruptcy in Shenyang, Liaoning's capital, has given warning that lifetime employment is no longer a sacred birthright, though the possibility of a rash of bankruptcies has been discounted by most foreign observers. Chinese officials have had great difficulty in dealing with the implications of redundancy, preferring two more moderate alternatives for troubled companies.

The contracted responsibility system, under which factory workers negotiate a contract with the Government, defining targets for profit, tax, and growth projections, and are then left to bear the brunt of any additional losses, or to reap direct benefits from higher-than-expected profits.

"Horizontal association" with bigger, profitable enterprises. This obliges the "parent" company to allot some of its production to the ailing company, and to retain its workers where necessary, to seek efficiencies, and at the same time to accept responsibility for the welfare of the adopted workers.

Even healthy companies are

being encouraged to develop "horizontal association" with other companies in an effort to lift production efficiency. In Liaoning alone, almost 10,000 factories are now linked horizontally, according to Zhu Jiazhen, the province's vice-governor.

Experiments in leasing small enterprises, in using bonds and shares to finance capital investment (long neglected because until recently most state factories remitted almost all of their surplus earnings to the Government in the form of tax or profit), and in establishing "talent centres" to act as embryonic employment exchanges, have also begun to spread to other parts of the country.

Foreign economists in Peking say officials have begun to address issues considered heretical only two years ago - like measures to separate the state as owner of a factory (by virtue of which it receives profits) from the state as regulator (by virtue of which it is paid taxes), and the attractions of joint stock ownership but of a diffuse and indirect kind that gives managers more independence while ensuring answerability.

They praise the idea of "contracted responsibility", which helps to define Government roles more clearly, gives managers more authority, and provides incentives for greater efficiency, but warn that the system could founder if misapplied.

They say taxes, input prices and interest rates should not be open for negotiation as part of individual contracts, since these should apply equally to all companies if they are not to distort the forces of open competition.

They also fear that frequent renegotiation of contracts could undermine their effectiveness, just as a failure to set target dates for a return to profit could lead to contracts being used as instruments to keep alive inefficient and obsolete companies.

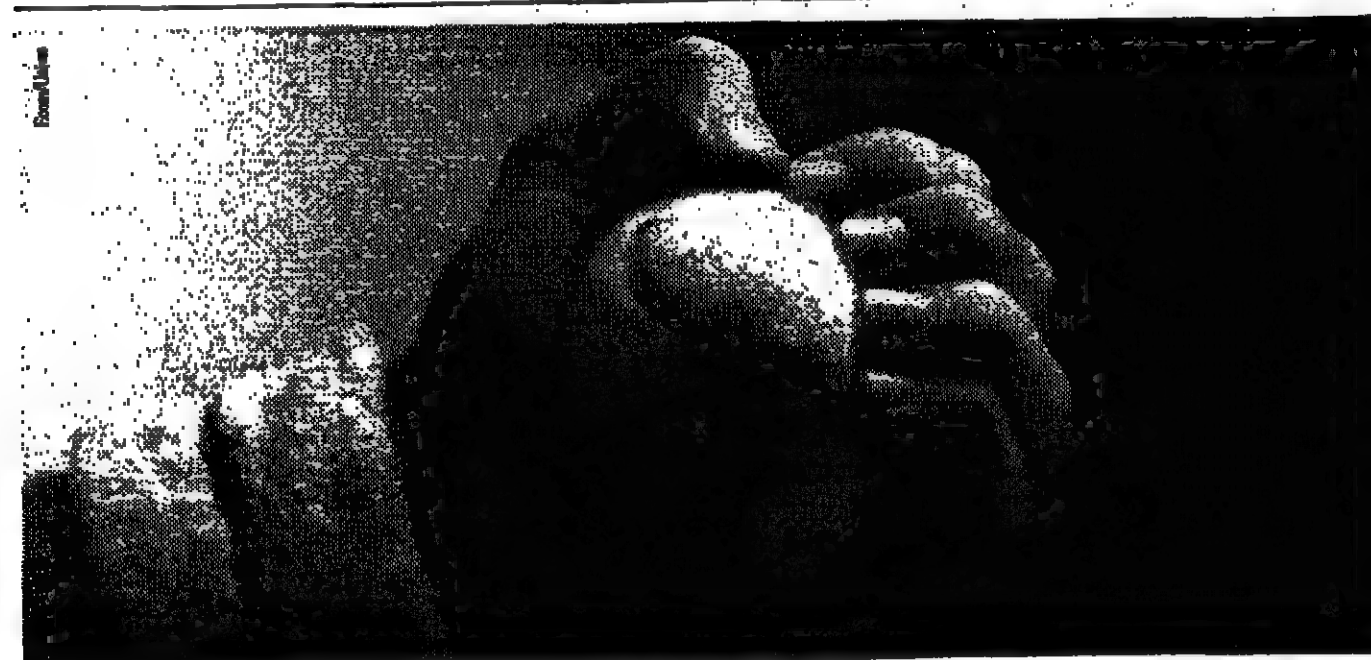
Even more controversial are efforts to persuade officials to look afresh at the welfare roles of factories.

It is understood that World Bank staff in Peking have been arguing that a factory's management should be held responsible for its welfare function - which would alleviate the problems of many factories that now pay salaries to as many retired workers as existing workers.

They say such responsibilities should be taken on by the state directly. This would enable factory managers to focus attention on production and would improve labour mobility. Such ideas have not yet won a

strong response from Government officials, but they have not been dismissed out of hand - which they would have been two years ago.

David Dodwell



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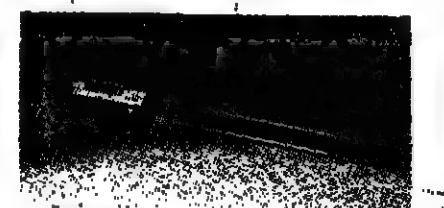
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Despite economic reforms, formidable problems remain

Steelworks taste freedom

MR LIU HUAZHONG, president of China's largest steelworks, at Anshan, was looking remarkably pleased with himself just after his return from the 13th Party Congress in Peking last month.

The message he brought back to his colleagues at the sprawling complex in Liaoning province was good: the reforms go on. Anshan will be allowed to retain a significant part of its profits and manage its own business as it thinks best.

For Anshan, which dates back to 1918 when it was built by the Japanese during their occupation of Northern China, the economic liberalisation which Liaoning has pioneered, has already yielded important results. "In the past our only care was to fill the quotas for the state and not care about who will use the steel and what is the quality," says Mr Liu. "But now, when we have fulfilled the task given to us by the state, we can look towards the market."

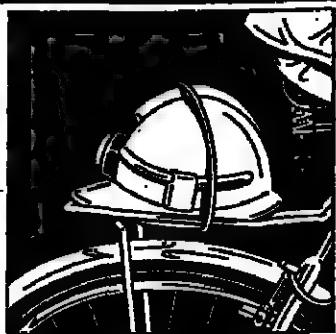
This new freedom has given Anshan and the other 14 large steelworks with annual production of more than 1m tonnes a big incentive to speed up the commissioning of new plant and to raise efficiency.

As the Ministry of Metallurgical Industry, which controls the major state works concedes, prices in the open market for the steel mills' "surplus" above their quota production can be three times more. Although the state steel industry expects to pay Yuan 14.5bn (\$4bn) in profits and taxes to the state this year, some 30 per cent of profits were used to pay bonuses to workers to encourage productivity. However a significant amount was used for new capital development, which the state enterprises are being encouraged to fund out of retained profits and borrowings.

Many of the older steelworks like Anshan have an enormous need to bring in technology from abroad, to increase capacity, and even more importantly to raise quality, which is still low in many parts of the industry. To do this, the larger complexes, including Anshan, Wuhai Iron and Steel in Ningxia and Laitou Iron and Steel in Shandong have all been permitted to raise foreign loans.

Since all of the steel is desperately needed in the domestic market, the foreign loans will

Here, and on the next page, Max Wilkinson looks at the country's resources available to assist development



have to pay for out of the foreign exchange earnings of the customers. However, the authorities in Peking now appear to have conceded, in principle at least, that domestic production which prevents steel imports from rising above the present level of 15m tonnes a year is as good for the country's external balance as direct exports would be.

This policy appears to complete the shift of emphasis away from building large new steel works with foreign technology like that at Baoxin, near Shanghai, which is scheduled to produce 3.12m tonnes of raw steel annually after the completion of the second stage of construction in three years time. The new policy is to build on the older works, expanding existing production with Chinese engineering technology, and concentrating as much as possible on the transfer of know-how where it is not.

At Anshan the plans for the next eight years envisage additions of 2.5m tonnes a year to the present annual capacity of only 7.75m tonnes. Mr Liu is confident that the new incentive structure will enable him to meet the state's target for new capacity in the present five-year plan, two years ahead of schedule.

This is partly because the 200,000 workers in the factory are already tasting the rewards of better organisation and the ending of outdated restrictive practices. A new 300,000 to 400,000 tonne rolling mill of US design, for example, was commissioned in 13 months instead of the planned 30 months, mainly because four teams concerned with design, construction, operation and commissioning were put together under one leader instead of getting in each other's way as in the past.

The pay-off has been considerable. About Yuan 1.6m (\$430,000) was saved on the project and divided according to a formula which seems fairly typical for Chinese enterprises nowadays. Half went to the complex as a whole, 30 per cent was used directly for further investment, 10 per cent was earmarked for workers' welfare, and another 10 per cent was paid out in special bonuses in proportion to the contribution made by individual workers. The average bonus of about Yuan 60 represented about half the monthly basic wage, but the 2,500 people on the project were not rewarded equally, so some received far more.

This ability to reward workers, combined with much greater flexibility in managing investments, is now seen as the key to better performance in the future, though the problems at Anshan as elsewhere, are formidable. Mr Liu lists not only old equipment, but overmanning, poor discipline among the workers and excessive fuel consumption among the tasks to be overcome.

For China as a whole, these difficulties add up to serious doubts whether production can be raised fast enough to avoid continual shortages, high marginal prices and a sustained level of imports.

Although China is now the world's fourth largest steel producer, with total output of about 55m tonnes expected this year, it is also one of the world's largest importers of steel, with imports running at 15m tonnes this year. China is still not able to produce enough high quality steels like those needed for steel plates in cars and seamless pipes for offshore equipment, even though overall output has been growing at 7 to 8 per cent a year.

Even if the country meets its target for production of 55m to 60m tonnes by 1990 and 80m tonnes a year by the year 2000, it is still likely to be well short of meeting total demand which has been estimated at 100m tonnes a year by the end of the decade.

One of the reasons is that the economic reconstruction of China's economy is leading to a rapid increase in steel consumption. Average steel consumption in China, at 50kg per head of population, is still only a third of the world average.

To meet this expected rise in demand, China has been busy securing its raw material supplies. Hence, the recent joint venture with Hamersley in Australia for the production of 10m tonnes a year of iron ore. More recently, it has been talking to Krupp of West Germany about a joint venture plant at Taiyuan to produce 300,000 tonnes a year of special high quality steels, which are in chronic short supply in China.

In the longer term, however, joint ventures, foreign capital and local initiatives cannot solve the mismatch between supply and demand for steel products in China until a more rational pricing policy is adopted. This is recognised by the ministry, which plans to reduce the official quota gradually, in the hope of cutting the differential between official and market prices.

No-one seems to know quite how the great experiment with market pricing and more flexible funding of investments will work out. As Mr Liu says: "In the past the director's responsibility was simply to meet ever-increasing demand. Now he has to keep one eye on the demands of society and the other eye on profit."

Max Wilkinson

CHINA'S AMBITIOUS strategy for reducing electricity shortages and meeting the power demands of an expanding economy is being re-appraised in several important ways.

Since 1979 a huge effort has been made to get more megawatts onto the system, by almost any means available. Turbine generators and boilers have been imported from almost every country that makes them, often at knock-down prices. Meanwhile China's power engineering industry has been expanding as fast as it can on the basis of US and Soviet technology.

Under the five-year plan up to 1990, nuclear power, hydro-electric schemes and coal-fired power stations were expected to contribute to the national need at the maximum feasible rate.

China's plan is to increase generating capacity by some 30,000 MW to 35,000 MW in the four years to 1990 and to sustain a growth rate of plant capacity of 8 to 9 per cent a year. By the year 2000, it expects to need some 240,000 MW of capacity compared with 100,000 MW now.

This is not just to accommodate increased economic growth. Power shortages are still acute, with blackouts and industrial shut-downs common in most parts of the country.

Estimates presented to a seminar in Peking last month suggest that more than 20 per cent of China's industrial production capacity is unused because of shortages of electric power. In the populous south-east the shortages are much worse, while more than 40 per cent of villages have no electricity at all.

Overcoming these shortages and meeting the demands of growing commercial and industrial sectors, therefore, have been given top national priority. However, the wider economic reforms and the constraints of technology have led to re-examinations of the structure of the industry, the role of nuclear power and the siting of major power stations.

At the beginning of the decade, the major problem confronted by China's planners was that the largest sources of energy were in remote regions, with the largest coal deposits in the north and west and much of the poten-

Nuclear power

Coal resources lead to shift in strategy

tial for hydro-electric power in the south-west.

Since hydro-electric schemes consume huge quantities of scarce capital, both for construction and for the transmission lines it was recognised early that coal would have to provide some 70 per cent of electric power in the foreseeable future, though it was hoped that nuclear power would provide perhaps 5 per cent of the country's needs by the end of the century.

The reliance on coal required a major expansion and electrification of the railways, about half of whose capacity is now used in transporting coal. In addition, many more high voltage (500,000 volt) transmission lines were planned to carry electricity from large power stations near pit-heads to the eastern provinces where 90 per cent of the population lives.

Official plans still envisage that some 10,000 MW of nuclear plant (equivalent to 10 largish reactors) will be built by the end of the century with 3,500 kilometres of 500 kV transmission lines to interconnect five of the present seven electricity grids.

However, it is clear that the emphasis is now shifting away from large nuclear and minemouth coal-fired stations in favour of rather smaller projects situated nearer to centres of population. The move reflects increasing scepticism about the economic benefits of nuclear power in a country with vast resources of coal whose economic cost is low, even allowing for transport. The doubts were given added emphasis by the Chernobyl disaster in April 1986 and by defects already discovered in China's Daya Bay nuclear station, being built as a joint venture with China Light and Power of Hong Kong.

China's dilemma over nuclear power is that it makes no sense to develop such a difficult - and potentially dangerous - technology in a piecemeal way. A fairly substantial programme based on a single technology is needed to ensure the best use of manufacturing resources and scarce engineering skills.

However, the two 900 MW reactors at Daya Bay are being built to French designs, while a 300MW reactor at Qinshan near Shanghai is of Chinese design, based closely on a Westinghouse pressurised water reactor. Two more 600 MW reactors at Qinshan are to be built to designs of Kraftwerk Union of West Germany. It seems probable that the authorities will wait to see how both projects progress before authorising any more nuclear plant, and it may be that the nuclear programme will be put on the shelf for many years.

This would shift the emphasis towards coal plant in the provinces of the south-east. At the same time the loosened grip of central planning departments is shifting the task of supplying these regions to the localities.

Provincial governments, townships and even local enterprises are now being encouraged to build power plant for their own needs. This, it is hoped, will promote local initiatives in the conservation and better management of power. However, it has meant a shift away from the idea of large minemouth power plant in remote areas towards siting plant in the richer areas where

revenue and foreign loans can more easily be raised.

In Shanghai, for example, agreement was recently reached between the Huaneng International Development Corporation and 14 foreign banks for a \$90m loan to finance China's first super-critical coal-fired plant with two 600MW units capable of supplying a third of Shanghai's present power needs. Inevitably, however, strong central control will be required for the development of such a vast industry, which expects to complete 8,000 MW of new plant this year with investment of about Yuan 12bn (\$1.8bn or \$3.23bn).

The question now being debated is whether the industry should continue to be run by the Peking ministries, mainly the Ministry of Water Resources and Electric Power (MWRE), or by a semi-autonomous enterprise more similar to Britain's Central Electricity Generating Board.

Mr Yao Zhenyan, vice minister at MWRE, favours such a devolution, which would be in keeping with China's general policy of trying to improve the flexibility and motivation of enterprises by easing the stranglehold of bureaucracy. But it would not make much sense unless the industry could move towards self-financing. This, like so much else in the Chinese economy, depends in turn on a more rational pricing policy with prices more in line with real costs, including financing costs.

At present electricity prices scarcely cover operating costs, which are in any case depressed by the artificially low prices charged for coal.

Tariff reform will take many years, because of the fear that widespread price increases for basic energy would fuel inflation. However, there is no doubt that as China moves to a more open and diffuse system, rational pricing will become more and more important, particularly as the planners' grip is being weakened by shortages of centrally administered capital.

Max Wilkinson

Who's taming traffic in China?

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Specifications: Assay (H ₃ PO ₄)	85% min
Colour (A.R.P.A.)	10 max
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Nitrate (NO ₃)	0.0005% max
Heavy metals (as Pb)	0.0005% max
Iron (Fe)	0.0005% max
Manganese (Mn)	0.0001% max
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Packaging: In 35 kg solid polyester plastic and 320 ton drums.

China National Chemicals I/E Corp., Beijing Branch
190 Inside Chao Yang Men Street, Beijing, China
Cable: "SINOCHEM" Beijing Telex: 22470 SPTCC A CN

SODIUM

HEXAMETAPHOSPHATE

Formula: (Na₆P₆O₁₈)
Description: White powder solid, highly deliquescent, soluble in water, insoluble in organic solvents.
Specifications: Total phosphate (H₃PO₄) 98%
Iron 0.005%
Water insoluble 0.005%
Use: Used as water softener, high heat bonding, descaling and detergent agents also used in textiles, dyeing and printing industries as well as in polymers, chemicals, farming, water-treating and building materials industries for soil analysis, bottle washing and other detergent uses.
Storage: In cool and dry place.
Packing: In 25/50 kg net plastic woven bags lined with double plastic bags.

China National Chemicals I/E Corp., Jiangsu Branch
80 Zhongshan Road, Nanjing, China
Cable: "SINOCHEM" Nanjing
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BARium

CHLORIDE

Formula: BaCl₂ · 2H₂O

Specifications: BaCl₂ · 2H₂O content 98% min

Packaging: In plastic woven bags of 50 kgs, net each, with plastic lining.

China National Chemicals I/E Corp., Guangdong Branch
61 Yanjiang Road (1), Guangzhou, China
Cable: "SINOCHEM" Guangzhou
Telex: 44076 HAGCN CN

BARium

HYDROXIDE

Formula: Ba(OH)₂ · 8H₂O

Specifications: Ba(OH)₂ ≥ 98%

Analysis: Carbonates ≤ 1.5%
Chlorides ≤ 0.3%
HCl insolubles ≤ 0.05%

Packaging: In woven bags of 50 kg net each lined with plastic bags.

FURFURAL

Formula: C₅H₄O₂

Description: Light yellow liquid, gradually turning to dark amber when exposed; with characteristic pungent odour soluble in alcohol and benzene.

Specifications: Purity (% by Titration) 98.5 min
Specific Gravity (D₂₀²⁰) 1.20-1.14
Refractive Index (n_D²⁰) 1.36-1.37
Moisture (% by Toluenes Method) 0.5 max

Acidity (Equivalent per Liter) 0.20 spec.
Distillation (Begin-Distillation) 1.8-1.9°C
158-164°C Distillate (ml) 92.0 min
E.P. (°C) 70 max
Recovery (%) 98.5 min

Use: 1. Reagent of laboratory; 2. Solvent for butadiene, naphthalene, nitrocellulose, cellulose acetate, stannous chloride and other organic materials; preparation of synthetic resins; 3. Industrial derivatives; 4. Organic acid and sulphuric acid; 5. Organic acid and sulphuric acid; 6. Organic acid and sulphuric acid; 7. Organic acid and sulphuric acid; 8. Organic acid and sulphuric acid; 9. Organic acid and sulphuric acid; 10. Organic acid and sulphuric acid; 11. Organic acid and sulphuric acid; 12. Organic acid and sulphuric acid; 13. Organic acid and sulphuric acid; 14. Organic acid and sulphuric acid; 15. Organic acid and sulphuric acid; 16. Organic acid and sulphuric acid; 17. Organic acid and sulphuric acid; 18. Organic acid and sulphuric acid; 19. Organic acid and sulphuric acid; 20. Organic acid and sulphuric acid; 21. Organic acid and sulphuric acid; 22. Organic acid and sulphuric acid; 23. Organic acid and sulphuric acid; 24. Organic acid and sulphuric acid; 25. 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CHINA 12

A notoriety for poor design and low quality products

The jumble of technologies

TO FIND out what is wrong with Chinese technology, all one needs to do is to visit the bathroom in a new provincial hotel. The bathroom is modern, it is imported, it is badly installed and it does not work.

The problem, as the Government is well aware, is lack of know-how and inattention to detail. Professor Ronald Amberger, a visiting engineering specialist from New York State, became so infuriated when steam poured out of his bathroom taps, that he demanded to be taken down to the boiler room to see what was wrong.

"I wrote a report saying the problem could be solved by a few dollars spent on a thermostat and control valve, but I don't imagine anything was done," he says. "The crazy thing was that the system was quite new, but the valves were jammed through lack of use and it was costing them a fortune in waste heat."

The same tale with different details can be told from enterprises large and small throughout China. The effects of the Cultural Revolution, when schools were closed and professors were forced to become peasants, will take many years to overcome, as the authorities are well aware.

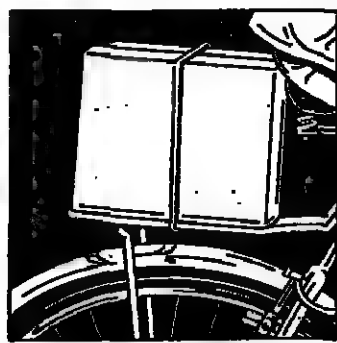
Although imports of foreign hardware are still desperately needed to help modernise China, the emphasis has now shifted towards the transfer of skills and technology as much as possible. However, the highly specialised nature of China's technical education system, and the method of assigning students to factories still hamper progress.

For example, a university level engineering student may concentrate on a field as narrow as the construction of electric motors, without learning anything about thermodynamics. At the end of his course, however, he will be assigned to an enterprise on the basis of his grades, his expressed preference and the bids made by industrial managers. Thus, many students who do not get their first choice end up in areas for which they are poorly qualified.

The results are poor design and low quality products, for which Chinese industry has been notorious. A major effort to correct this after 1978 resulted in a huge inflow of imported technology from turbine generators and oil refineries to computers and colour TV production lines.

This has resulted in many sectors in a chaotic mixture of technologies which seems certain to create problems for the future.

Inattention to detail and narrow specialisms mar progress. Right, the work of a manager



China has set up 113 different colour television assembly lines, mainly with foreign technology, but most of these are too small to be efficient by the standards of more advanced nations. Another example is the power station building programme, which resulted in the purchase of equipment from manufacturers in France, the UK, the US, Switzerland, Germany and Italy as well as from almost every Eastern European country. As one prominent Western manufacturer says, this will create great difficulties in providing spare parts in the next five to 10 years, which will be compounded by language problems.

It is not only the construction and design engineers which need to learn the language of the supplying country, but operators, too, have great difficulty in transferring from one make of foreign plant to another.

At the Liaoyang Petrochemical Fibres plant in Liaoning province, most of the dials in the control room are labelled in English. No attempt has been made to translate instructions into Chinese, even though many of the control room staff do not understand Roman characters. The problem is overcome by rote learning. Operators know that if such and such a dial moves into the red sector, they pull such and such a lever. It works, but the limitations are obvious.

In many specialist sectors like petrochemicals and nuclear power, China has little option but to import from the industrialised countries. However, where possible, the policy now seems to be to concentrate on second-best, home-made solutions.

For power generating equipment, for example, China has made a big effort to increase the size of machines as well as production capacity. As a result, it is now able to make 600 MW sets, which may not be the most advanced in the world, but are adequate for the country's needs.

A similar approach is evident in the steel industry, where foreign technology will long be needed to manufacture high quality products. But indigenous technology is being developed, mainly at the less sophisticated end of the business.

It is the computer industry, however, which presents China with its most difficult technological challenge. The economic reforms now under way will depend on much more sophisticated monitoring and control of the financial sector, both nationally and by the major enterprises. As a result, ambitious plans are being laid to computerise the banking sector, tax gathering, communications, the railway network and electric power distribution.

This will inevitably require the import of large business computers which are at present restricted for security reasons by the Communist Party, mainly because of pressures from the US. Although China has its own super-computers, mainly for military use, there are few of these.

It has a micro-electronics fabrication plant near Shanghai, but the technology is very unsophisticated by modern standards. It is capable of etching eight layers onto one chip, compared with 20 to 30 layers in more advanced western plants. Its techniques for making memory chips are probably more than a decade behind, which in such a fast-moving industry is to be quite out of the race.

One response has been to set up the Great Wall computer company, which has brought together smaller enterprises to manufacture desk-top personal computers to larger business machines. Mr Philip Yu, general manager of China Hewlett-Packard, the largest joint venture in the field, says he is not optimistic about the future of the Great Wall company, because its 'organisation is too loose'.

As Europe has already found,

keeping pace with US and Japanese information technology is no easy task without joint ventures.

But in China, the prospects for a computer manufacturer wanting to enter a joint agreement are not good. Since almost all the machines are likely to be needed in the domestic market, foreign exchange earnings are likely to be low. For Hewlett-Packard, that has meant that no profits at all have been repatriated to the parent company in the US since its 57.5 per cent owned China subsidiary was established 12 years ago.

H-P is characteristically taking the very long view, although it is also making some money-selling components to be assembled in China. This kind of venture seems to be the way forward for China, because it is staffed mainly by Chinese engineers, whose basic salary might be Yuan 2,000 (\$540) a year. By contrast, the cost to a large US computer company of keeping an engineer in China could be \$100,000 to \$150,000 a year.

However, the difficulties of training Chinese students in computer science are formidable. One college lecturer said that most of the students on his course were unable to understand the simple English prompts which computer languages throw up on the screen.

A national survey showed that a majority of the computers bought in the first flurry of buying this decade were under-used or lying idle because no-one in China understood how to use them. This may change with the invention of a number of systems for inputting Chinese characters into a simple personal computer, using the standardised keyboard. The marriage of word-processing and Chinese bureaucracy might yet prove to be explosive.

The most desperate need, however, is for computers in industry, not merely for the control of robots, where some imports are already appearing, but in the much-neglected areas of financial control and analysis, stock control and the general promotion of efficiency.

If the West wants China to continue on this path, its highly restrictive attitude to exports of computer and communication technology must be rethought. Although the country seems on the road towards economic liberalisation, one of the most formidable obstacles, over which it could yet stumble, is the backward state of its technology.

Max Wilkinson



Mrs Zhou Guiying, outside the engineering factory she manages in Shenyang.

Management reforms

The next stage after profit and incentives

MRS ZHOU GUIYING looks altogether too motherly to be one of the shock troops in China's struggle to subject Communism to the discipline of market economies.

However, her dingy little engineering factory on the outskirts of Shenyang in Liaoning province, is one of only a handful in China to have been threatened with the ultimate capitalist penalty: bankruptcy.

Mrs Zhou was moved in to rescue the Shenyang Hardware Factory's 120 workers four years ago. Now she can report her mission accomplished. The dreaded bankruptcy warning was withdrawn by the provincial authorities this summer. A gaudy 'certificate of merit' now adorns her office, where two battered desks and a sofa huddle together on a cracked concrete floor.

By Western standards, the factory is still little more than a backstreet operation, making pressings from scrap steel, recycling old tin cans and assembling a simple electronic device from bought-in parts. But there is one huge change from the early years of the decade when the factory ran up losses of almost Yuan 300,000 (\$80,000): it is now making things that people want to buy.

Sales this year are running at twice the planned level and profits, at Yuan 75,000, will be three times the target.

Such a rapid improvement was possible because the previous management was, as Mrs Zhou says, 'chaotic', with a record of dismal productivity and low quality, a fairly devastating combination for an engineering company at the bottom of the technological league.

These were extreme symptoms of the disease which stultified Chinese industry during the long period when factory management was dominated by party politics. Workers were paid exactly the same whether they performed well or not. Managers were given few powers and no incentives; and because prices and output were fixed by the state, many factory bosses scarcely recognised the concept of profit, in either an economic or an accounting sense.

Mrs Zhou therefore represents a new style of management which has been developing over the last few years, and now seems set to become more vigorous and more widespread as the effects of this year's Party Congress become absorbed by the provinces and townships.

Managers in a wide range of enterprises including small engineering works, the largest industrial complexes, banks and travel services, all speak with a

renewed confidence that their role has been confirmed. Profit, bonuses and investment are now the key words. In a country where rationing and price controls are still endemic, an enterprise's profit is still rather an arbitrary figure, particularly as tax rates are negotiable with provincial authorities.

Nevertheless, there is little doubt that the ability to generate and retain profits is having a highly beneficial effect. In Mrs Zhou's factory, for example, about a quarter of the average worker's monthly pay of Yuan 120 (\$32) represents a bonus which is broadly related to profits, but more important, is distributed, according to merit by the factory director.

The workers are very content with the new system. If they operate well and profitably, they see that they get good wages, otherwise not. So they are very concerned about the quality of the product and observe the regulations with very strictness," Mrs Zhou says.

The linking of profits and rewards is part of the new management responsibility system, which will be extended next year to about 80 per cent of China's medium-sized enterprises according to Mr Song Tingming, director of the country's Commission for Restructuring the Economic System. This system is likely to exert much more leverage than the idea of bankruptcies, which has run into political opposition in Peking, and has been applied in practice only to two enterprises in the whole of China.

Even so, managers' powers are still fairly limited. They can organise the workload of their factories without outside interference, and can shift employees around and pay them different bonuses. These bonuses can add 50 per cent to the basic monthly wage of around Yuan 100. Sometimes, bonuses can be two, three or even four times the basic monthly wage.

Although this clearly confers strong powers on the factory managers, it is also beginning to create tension, because the state or provincial governments often allow managers to use some of the surplus generated for capital investment. At the Liaoyang petrochemicals plant, for example, capital investment allocations are 'decided' by a workers' committee, although management submits proposals and the state government clearly has the final say at an installation of such strategic importance.

In smaller works, however, the system allows plenty of scope for argument. At the Iron Printing Factory in Harbin, for example, there appears to be a lively debate going on as to how the

Yuan 740,000 profit expected this year should be distributed.

The director, Mr Han Guofu, is one of China's contracted managers, who won control of the enterprise in a competitive bidding round, judged by a committee of local worthies. His group beat four other management groups last year and promptly doubled profits. About two-thirds of the profit will be handed back to the state and to the provincial government which owns the plant, and the remainder will be allocated between bonuses, welfare and capital spending, according to a formula which allocates 70 per cent to workers' welfare and bonus.

Mr Han, a brisk 41-year-old engineer in a neat brown blazer, is one of the managers who has broken comparatively free from bureaucratic and political interference. His contract, which sets out rights and obligations on both sides, does not include a production target or even a profit target. He has been given considerable power to develop products, look for new markets and organise his workforce accordingly. But on the vital matters of capital spending and bank borrowing, he will need to keep in with the provincial authorities and to keep his workers on his side.

Now that the worst inefficiencies have been flushed out, continued growth (only 10 per cent is projected next year) must depend on expensive re-equipping, so Mr Han will have to persuade workers that the recent rapid rise in earnings is a one-off bonus unless they want to jeopardise investment for the future.

This is in different ways, the crucial problem facing managers all over China. As the World Bank has noted, in socialist countries, managerial control tends to differ only slightly from worker control, since managers find it hard to resist worker demands for greater benefits or to insist on the often unwelcome changes in work practices that

are needed for innovation and increased efficiency. Studies of experimentally reformed enterprises reveal large increases in worker benefits, but small increases in economic efficiency.

Much, no doubt, will depend on the personality of the managers themselves in relation to workers' representatives. However, it seems unlikely that the recent improvements can be sustained without continuous reform to bring realising flexibility and competition to bear on individual enterprises.

At a factory in Changchun, in Jilin province, maximum output of Japanese-designed washing machines was said to be exactly equal to demand, even though prices were fixed by the provincial authorities, subject to an 8 per cent variation up and down by the factory. But if the Government is successful in its present hope of curbing consumer spending and reducing the growth of the money supply, this factory, like many others might in theory be faced with a decision whether to make a substantial cut in prices to keep up production and minimise unit costs. At present, the administrative machinery for making this kind of decision seems to be almost non-existent.

However, this goes far beyond the issue of management. It requires the authorities in Peking to confront the fact that controlling inflation by holding back growth of the money supply may mean that the price of washing machines and the wages they will have to fall. Or, to put it another way, managing reforms based on the idea of profit and incentives will make no sense at all in the longer term unless they are associated with a liberation of prices on a grand scale. And that will require great political courage.

Max Wilkinson

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CHINA 13

The North-East is the country's granary and industrial heartland

A powerhouse for change

FOR MORE than 80 years up to the 1949 Revolution, China's North-East - nowadays called Dongbei - was fought over with a ferocity that few other parts of that country suffered in its civil war period.

As Dongbei has emerged today to be China's main granary and industrial powerhouse, it is not hard to imagine why first Japan and then the Soviet Union fought so jealously to win control of the area.

At the same time, however, as the heartland of Mao's command economy, with giant state factories and state farms dominating the region, Dongbei has come to symbolise so many of the things that are wrong with Mao's vision of how Communist China should be run.

Not surprisingly, therefore, it has become a major focal point for financial and economic reform as Deng Xiaoping has tried to breathe fresh life into the country's massively inefficient industrial sector. Bond markets, factory leasing, contracted management and other market economy experiments have been more ambitious here than elsewhere in China.

In so far as they succeed - and early signs are encouraging - the region will not only set a powerful example for the rest of the country, but will boost supplies of coal, iron, steel and heavy industrial equipment which are in critically short supply, thus holding back economic growth.

As early as 1896, when the ailing Qing Government in Peking ceded the Liaoning Peninsula to Japan, Tokyo's military leadership had a clear vision of how the area then called Manchuria could play a critical part in its imperial expansion.

Unlike anywhere else in China it was sparsely populated - in part because the Manchus who conquered China and set up the Qing dynasty in the early 17th century refused to allow settlement in their homeland - and rich in natural resources. Huge coal and iron. The vast, virgin steppelands stretching from the mountain border with Korea in the east to Mongolia in the west, had about three times the land area of Japan, and they were immensely fertile.

Japan's ambitions were frustrated, however, by other jealous colonial powers like the Soviet Union and the US, with the whole of Dongbei being assigned to Russia in 1906. The Imperial Russian Government wasted no time in building a railway from Siberia to Port Arthur - now Lushan - at last giving it a warm water port in the Pacific.

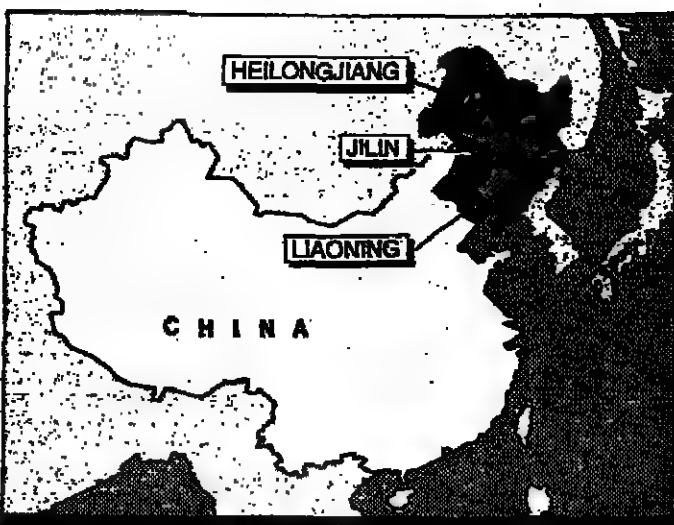
As the Russians were plunged into their own revolution, so local warlords wrested control, prominently Zhang Zuolin. How ever growing conflict between Nationalist and Communist forces inside China gave Japan the second chance it needed. The puppet kingdom of Manchukuo, based on Changchun, which is today the capital of Jilin Province, was set up in 1931 with the deposed child emperor Pu-Yi on its throne.

For the next 14 years, China's North-East became a critical supply-base for Japan's war effort, and a launching pad for military expansion across the length of China.

The surrender of Japan after atom bombs were dropped on Hiroshima and Nagasaki brought no relief to the region. As the Russians matched control, Japanese troops pulled up railway lines in their retreat, while Soviet troops sacked the region. Even office furniture was taken and transported west across Siberia.

It is hardly surprising then, that this area was one of the earliest to give support to China's Communist army, and after liberation in 1949 was one of the most committed to Socialist Revolution. Even today, despite a heavy littering of grand buildings of Japanese and Soviet design, and a substantial White Russian minority in cities like Harbin, close to the Soviet/Siberian border, enmity towards colonial powers - and in particular Japan - is never far from the surface.

From 1948, the heavy industrial base in Dongbei has been rebuilt virtually from scratch. From Shenyang, the capital of Liaoning province, one of the best road and rail infrastructures in the whole of China radiates out - south-west to Peking and Tianjin, north-east to Changchun and Harbin, and south to Anshan, and the port of Dalian.



Focus on the North-East, nowadays called Dongbei, and over the next three pages, Tianjin, Shanghai and Jiangxi



Mao Zedong's statue in the centre of Shenyang

Today, the North-East accounts for about one-third of China's industrial output. Giant industrial complexes like the Anshan steel works, with its 390,000 workers, produce a quarter of the country's steel. The Daqing oilfield in Heilongjiang even today accounts for half of the country's oil output. State farms cleared from virgin steppelands over the past 40 years today make Liaoning, Jilin and Heilongjiang the country's most important suppliers of grains ranging from wheat and rice to millet and corn. It is one of the world's main bases for soybean production, as well as a source of lucrative crops like ginseng. It is China's only dairy farming area, and accounts for the country's entire crop of flax, used in the manufacture of linen.

The region gained from the ideological backing provided by Peking, but in recent years has come to pay a high price for being so dominated by state enterprise. Capital investment has been badly neglected as factories have been forced to remit the great majority of profits to Peking. Efficiency and productivity have slumped as workers have been paid the same salary, regardless of their effort or the marketability of their output.

Even today, officials in Jilin's Bureau of Foreign Economic Relations and Trade can report with equanimity that exports from the province are expected to amount to \$400m this year, compared with \$600m in 1986. Since these earnings are remitted in their entirety to Peking, with factories having to appeal to state ministries if and when they need foreign exchange to buy

with a widely publicised bankruptcy, a fast-developing bond market and literally thousands of loss-making factories being leased or contracted out to workers on terms that have shifted responsibility for profit and loss, and enabled the provincial and municipal governments to slash industrial subsidies.

Hundreds of factories which have for years been making products that no-one wants are now being taken in hand by profitable companies in what Chinese officials call "horizontal association," with workers being retained to produce new goods on terms that for the first time since liberation reward efficiency and financially penalise poor workmanship.

A Shenyang woman, Guan Guangmei, has won nationwide fame, being elected to the National People's Congress, after leasing eight loss-making state stores and making them so profitable that she now employs about 1,000 staff and is reputed to be a millionaire in local currency terms.

While thousands of factories mainly in Liaoning and Heilongjiang have issued bonds to their own workforces (the funds from which have been used for capital investment), an increasing number of companies is turning to Shenyang's bond markets - it now has three - in a bid to raise funds from the public.

These remain a far cry from stock markets as we know them in the West, but show signs of being successful in tapping private savings to fund capital investment in state sector factories that have been starved of funds for decades.

Officials both in Shenyang and Peking continue to talk of the developments in Shenyang as an experiment, but with 26 cities following suit nationwide, it appears likely to set a pattern for invigorating industry nationwide.

A price paid for the region's massive industrial development has been pollution on an alarming scale. Hundreds of cyclists face a daily battle to ride in and from work. But officials in Shenyang, Liaoning, Anshan, Changchun and Harbin all insist that great progress has been made in cleaning up the environment. Evidence of such efforts is hard to find in and around major urban centres.

Literally hundreds of petrochemical plants, power stations, textile factories and steel and iron foundries pour effluent directly into local rivers, and belch smoke in all colours into the atmosphere. An acid rain - part industrial and part domestic from the coal fires still used for heating and cooking in many urban homes - hangs low over every city from early in the day. Daily on one of the three bond markets in Shenyang that have attracted the attention of financial reformers countrywide.

Since Meng Tie, Mr Luo's boss, opened Shenyang's bond market in August last year, more than 80 bonds have been issued by a total of 13 local companies, raising almost Yuan 1bn.

The latest bond, in August, was issued by Liaoning's Automobile Industry Corporation. The issue, for Yuan 20m, was the company's fifth. Interest on each bond, which had a face value of Yuan 50, was a slim 2.4 per cent. But what made it a sell-out was the offer of an array of prizes to bondholders in a lucky draw just a week after the date of issue.

Such "lottery bonds" are by far the most common in the Shenyang market, accounting for 40 of the 50 issues so far mounted. The prizes in the lottery cost the automobile corporation the equivalent of an extra 5.2 per cent in interest.

The habit of issuing lottery bonds has also set a pattern for trading in most of the bonds on the market. The issues have up to now been complete sell-outs - evidence of the substantial savings of even the most lowly urban workers in China, and of the attraction of winning prizes ranging from new apartments to televisions, washing machines, refrigerators and bicycles.

Once the lottery is over, and prize-winners announced, there is a secondary rush in trade. Disappointed losers tend to cash in their bonds at a price of between Yuan 40 and Yuan 45. The loss is regarded as modest, given the chance of winning prizes worth Yuan 5,000 and more. Winners tend to hang onto their shares as a long-term investment.

The fall in price after the lottery is over gives an opportunity to investors to get bonds that offer a substantial interest rate return. A one-year Yuan 50 bond, like the automobile corporation issue, bought at Yuan 45 and



Shenyang's bond markets have attracted the attention of financial reformers

Bond markets

Masses of investors

MR LUO ZHENZHENG, deputy head of Shenyang's bustling bond market, would not at first sight be taken for one of the architects of China's more radical experiments in financial reform - perhaps because of the high-collared blue Mao-jacket that was once a symbol of anti-capitalist egalitarianism.

"The market is different from Western countries," he warns. "Enterprises sell shares to the society, but prices are not influenced by their profits or losses. What they sell is something more like bonds, where they get back their money, plus interest, after a fixed period of between one and five years."

The warning is important, but less so than two years ago, when Peking gave its tentative blessing to enterprises issuing bonds first to their workforce, and more recently to members of the public. It may only be a matter of time before true shares start being traded - if only experimentally - on one of the three bond markets in Shenyang that have attracted the attention of financial reformers countrywide.

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The fall in price after the lottery is over gives an opportunity to investors to get bonds that offer a substantial interest rate return. A one-year Yuan 50 bond, like the automobile corporation issue, bought at Yuan 45 and

offering interest on redemption of 2.4 per cent, offers investors a gross return of almost 16 per cent.

Mr Luo says that after this second wave of trading, bonds then tend to be held to redemption. It is yet to be seen how the market evolves, but with new and larger corporations - like the massive Anshan steel complex - now considering public bond issues, the volume of business appears set to rise rapidly in the year ahead.

There are 26 cities in China now with bond trading centres like that in Shenyang, according to Mr Ren Junyin, deputy secretary-general of the People's Bank in Peking.

"Shenyang has advanced far ahead of others in terms of the experiment in bond markets," says Mr Ben. "The city is prominent among the country's 27 centres for financial experiment, but even so it is still at a very initial stage."

There can be no doubting Shenyang's pioneering position - quite apart from the renown won by issuing "yellow card" warnings to seven deeply indebted factories, and by making one of them bankrupt.

According to Mr Zhu Jianshen, vice governor of Liaoning Province (of which Shenyang is the capital), efforts to invigorate the province's moribund state-run industrial sector include the decision to lease out more than 4,000 small companies, with the lessees taking full responsibility

for losses or profits. Some 20 ailing companies have been auctioned, and almost 10,000 have been "horizontally linked" with profitable companies that will in future be committed to upgrade efficiency and productivity, and retrain workers to manufacture goods that have a ready market rather than those currently being produced.

Apart from the 13 companies that have issued bonds to the public, 323 have issued shares to their staff to raise funds for capital investment.

"We are trying to make people 'go upward' and get rid of egalitarianism, and to give pay according to work," says Wu Diansheng, the Mayor of Shenyang. "The problem is that many people don't understand competition, and there has been interference with reform."

Interference there may have been, but with current signals from Peking, this may soon be something of the past. Mr Luo may still sport his Mao-jacket, but it is tempting to suggest that there is nothing much else left of Mao's heritage in his attitudes, or in bustling places like the Shenyang bond market.

Mao himself may be turning in his grave, but if the enthusiasm of Shenyang's emergent investing class is any indication, he is turning alone.

David Dodwell

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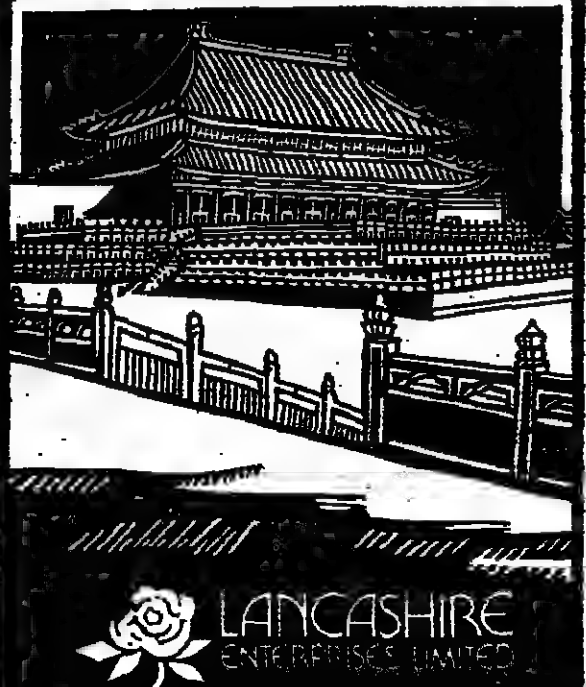
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CHINA 14

Heilongjiang, nearer to Siberia than Peking, is a centre for cross-border deals



Harbin, the capital of Heilongjiang province

Shutters lift again on trans-Siberian trade

FOR HEILONGJIANG, closer by far to Siberia than Peking, the recent improvement in Sino-Soviet relations has allowed the discreet reappearance of cross-border trade.

"The economic benefit is not so large," says Tian Jingchun, vice-president of Heilongjiang's Foreign Trade General Corporation which specialises in trade with the Soviet bloc, "but the social benefits are very great. Production has been promoted, and shortages in China have been reduced."

At just SwFr 52m in the first nine months of this year, the border trade counts for very little against sales into the world market worth \$600m last year. But as a symbol of the thaw in relations between Moscow and Peking, and of increasing provincial autonomy to conduct its own cross-border trade, the trend has excited close interest.

Trade between Heilongjiang and Siberia has been recorded for over 300 years, focusing initially on the export to Russia of tea, silk, soy and alcohol, and on the import of furs and iron and steel products.

As Imperial Russia began to manoeuvre at the end of the 19th century to grasp control of what was then called Manchuria - most of all to secure a warm water port for its navy in the Pacific - so the region gained even greater significance in Moscow's thinking.

Russia's own revolution, followed by the period up to 1945 of Japanese colonisation of the region, brought the shutters down on trans-Siberian trade, but gave Harbin, Heilongjiang's capital, China's only large White Russian community.

Even today, the city has a strong Russian flavour - with Russian churches, many Russian-designed buildings, and some notable Russian restaurants dispensing caviar and vodka, along with dishes found almost nowhere outside Eastern Europe.

As trade links have begun to be rebuilt in the past five years, there is a caution rooted in numerous recent memories of Soviet exploitation. Many recall how Soviet troops sent into Manchuria in 1945 to "liberate" the area from Japanese control literally stripped its cities bare. Factories were dismantled and transported to Eastern Europe. Even furniture was bundled onto trains and transported across Siberia to the West.

Still more recall Soviet efforts to dominate the economy in the wake of China's own Communist Revolution. In the 17 years to 1966, when hostilities brought trade to a grinding halt, three border crossings were opened up to facilitate trade.

Even today, academics at the Academy of Social Sciences in Harbin insist that improved trade relations cannot be consolidated until the "three obstacles" to improved diplomatic relations are cleared. These are the withdrawal of Soviet troops from China's land border, the withdrawal of Soviet troops from Afghanistan, and the withdrawal of support for Vietnam's occupation of Kampuchea.

A controversy was aroused last year in the Academy - and nationwide - because of publicity given to a paper by two academics that highlighted opportunities for enhanced economic co-operation between Heilongjiang

and Siberia. The paper, which talked of the border town of Heihe (which is still not open to Western visitors) becoming Heilongjiang's equivalent to Shenzhen, Guangdong's dynamic special economic zone neighbouring Hong Kong, focused on the complementarity of the economies of the two regions.

Siberia, it said, was bursting with power-generating resources, but was short of agricultural products, light industry and manpower. Heilongjiang, on the other hand, is in urgent need of more electric power, and has an abundance of agricultural staples like grain and soy.

The current official position appears to be that no dramatic improvements can be expected without a major shift in Soviet foreign policy, and that any Russian decision to speed development of Siberia without an accompanying commitment to ease relations with China would be seen as tantamount to a resumption of hostilities.

At the Foreign Trade General Corporation, Tian Jingchun

insists that such grand diplomacy has little impact on his daily life. "We are just businessmen," he says.

From 1984, when trade resumed in earnest, two-way sales amounted to SwFr 28m. It is expected to pass SwFr 55m this year, but a long-term growth trend appears hard to predict.

Main imports from the Soviet Union's Far East Trade Corporation are timber, steel, cement and fertilisers as well as consumer goods like fish, refrigerators, planes, typewriters and motorcycles.

In return, the general corporation sells grain, soy, pork, beef, apples, tea and furs as well as textiles and garments, thermoses and torches.

Unlike other provinces that have counter-trade links with the Soviet Union, these deals are negotiated locally and profits

stay in the province. Peking sets the framework for this trade, and also keeps control of trade with other countries in the Eastern Bloc.

The current liberalisation of economic policies in both Moscow and Peking has raised hopes in Harbin that trade is set to grow strongly in the near future.

On the other hand, so much technology and investment is being sought from the West, and hard foreign currency is so preferred to the more cumbersome entitlements of politically-qualified counter-trade, that it is probably destined to remain at the margins even of a province like Heilongjiang which neighbours the Soviet Union. *Glasnost* or no *glasnost*, the province will think twice before smuggling up too close to Siberia.

David Dodwell

Tianjin's mayor

A man on the fast track

MORE THAN most Politbureau members, Li Ruihuan has been responsible for building the new China. As a carpenter, he worked on the Great Hall of the People, the Chairman Mao memorial building and Peking Airport.

The earthy Mr Li has made his political name as Mayor of Tianjin, a major industrial centre about 120 km from the capital, but has long been enshrined in Chinese lore as the hero of a popular film, the Young Luban, which traced the 10-month construction of the Great Hall on Tianshanmen Square.

Unlike most senior party officials, Mr Li is neither afraid of personal subjects nor of a joke. He noted that the Chinese President, Li Xianjun, was a carpenter. "I told President Li that in party affairs he is the leader, but I am the better carpenter. I can make a better chair."

Mr Li is fortunate that his seat of power, Tianjin, is far enough away from Peking for him to be left to get on with his job, but close enough to call in senior leaders to show off the city's achievements. Deng Xiaoping has visited several times and liked what he saw, while Wan Li, a vice-premier, has been a political patron for many years and oversaw several of the construction projects on which Mr Li worked.

Appointed to the Politbureau last month, Mr Li, 54, says the position has given him a greater sense of responsibility. "I feel that there is a lot of responsibility. My focus is still Tianjin and the people of Tianjin. I think people will look to me to produce more."

He still drinks tea from an old jar in the manner of a factory worker and his gravelly voice, made coarse by chain-smoking, gives him a been-there-and-done-that edge. Mr Li is very conscious of public opinion and of public relations. He must also be aware that, by Chinese standards, he is on the fast track to very high office.

"If you compare the old veteran to Zhao Ziyang, you can't really call him young because he is nearly in his 70s. You can only say that he is relatively young. We do need to pay more attention to younger people. How old

was Lenin when he died? 53 or 54? As a self-conscious man of the people, Mr Li has occasional get-togethers with the masses. At such a meeting last month he was told of concern about rising prices, housing and a new but faulty gas system. According to Mayor Li, even if there are 10,000 good reasons for introducing price reforms, you cannot force such changes on a people who do not want them.

"We have to do public relations work. Eventually the masses will accept the price reforms. This is a very complicated task," he admits.

Li Ruihuan obviously has a talent for judging the shifting political winds. In 1984, he wrote an article for the magazine *Chinese Youth*, praising the thoughts of Chairman Mao Zedong and discussing the topic of the day, "Dividing one into two." Yet even he was criticised at the start of the Cultural Revolution in 1966 as a "capitalist road" and spent a few years in "a large garage."

Another joke? Mr Li explains. "I was such a big capitalist reader that I had a large garage to myself." He returned to public office in 1973 as a deputy chairman of the Peking trade union committee, and became deputy mayor of Tianjin in May 1981 under Hu Qili, now the head of the party's secretariat. A year later, he was promoted and began a campaign to beautify the drab city.

A Tianjin taxi-driver says Mayor Li had improved life markedly, and a factory worker reckons he has been the best mayor in the city's history, though an academic complains that Mr Li is more interested in big, eye-catching projects than in less obvious but still important areas such as higher education.

"I have been to several other countries and being a mayor there is not the same. If you compare me to a company official, I am the both the chairman and the general manager. Here I am responsible for everything. My utmost job is to know the people and to serve the people."

Robert Thomson

Tianjin

Dreaming of New York

WHEN THE Tianjin Government invited residents to whinge about the city, a newly-installed gas system proved to be the bane of most people's lives. The citizens complained that the re-forged gas was capricious and some preferred the old, dirty and reliable coal system.

Chinese leaders often cite Tianjin, 120 km east of Peking, as a model of urban development. The city has renovated older buildings, improved its road system, attempted to overhaul elderly factories and built a sound infrastructure for foreign investment. City elders are energetic, open-minded and willing to experiment with reform.

But in the same week that Tianjin announced the most ambitious housing reform problem of any large Chinese city, residents were given pork ration coupons and assured that the Government would curb inflation, which, along with the gas, matters most to ordinary Chinese.

Adapting to the changing China has not been easy for its citizens in the past year. The new gas system seemed like a good idea and price reform is necessary, but the problems that both have brought have prompted residents to think again about change. The editor-in-chief of the Tianjin Daily, Lu Si, says that most letters to the paper urged the Government to control prices to make them stable.

Mr Lu appreciates that market reforms mean price fluctuations and has been telling his readers that "only more reform can solve the problem. Most of the Chinese people know that only reform can save China. The old ways, the old methods and the old economic structure must be changed."

"Tianjin, with a long history as a foreign trading centre, has much in need of change. Older industries date back to the turn of the century, and many factories have antiquated equipment and management, while the city is in danger of losing its title as the country's third largest industrial centre.

An economics professor based in Tianjin says that industrial output increased by about 8 per cent this year, but in Suzhou and Wuxi, in Jiangsu province, the rise will be more than 20 per cent, and the two cities are closing in quickly on Tianjin. "We are very good at spending money but not very good at earning it."

Most Tianjin officials say that Chinese and foreigners tend to overlook the city, which is shadowed by Peking, and do not appreciate its current contribution to the Chinese economy or its potential. Zhang Zhaoru, director of the foreign trade office, when asked what the city could do to lift its profile, laughs and says: "You tell me."

Zhang admits investor confidence was shaken by the forced resignation in January of Hu Yaobang, but he has noticed an improvement in recent months. He expects total investment for the year to be lower than last, but claims that more contracts have been signed this year and the 1986 figure was inflated by several major hotel contracts.

The Tianjin Hyatt has struggled to keep occupancy around 47 per cent, and with the opening of the plush Crystal Palace earlier in the year and, more recently, the Tianjin Sheraton, profits will be hard won by foreign operators. Rather optimistically, Zhang Zhaoru hopes foreign business people will live in Tianjin and drive to Peking to work when a super-highway is opened in 1990, cutting a painful three-hour struggle to a one-hour drive.

To complement those ambitious plans, the municipal government will allow foreigners to pay about \$150,000 for a 30-year lease on a tract of land on which they can build their dream home in Tianjin. Mr Zhang explains: "The Government will provide the infrastructure, and the foreigners can build whatever they like. You can then sell the lease to others. We think foreigners will be very interested in such a method."

Foreign business people still find that bureaucracy gets the better of many good ideas, so Tianjin has established a foreign investment service centre to house the relevant departments. Gao Luan, the centre's deputy director, says that foreign partners sometimes had to visit 35 different offices to get approval for a project.

Housing reform for local Chinese will not provide the masses with dream homes, but will be politically sensitive, as rents will be raised and vested interests bruised. Tianjin's mayor, Li Rui-

huan, argues that the "commercialisation of housing is necessary because the current housing system is in a blind alley and must be reformed."

The plan is to increase rents sharply, particularly on apartments larger than the standard two rooms and a sitting room, so that purchasing a home becomes a more attractive proposition. The municipality will also use the Yuan 5.2bn (\$2.2bn) that Tianjin's 8m residents have deposited in state banks to fund an expanded construction programme and sell standard flats for about Yuan 15,000 (\$4,000).

Mayor Li wants Tianjin to become China's New York, with Peking the Washington. He would like to concentrate on large-scale high technology projects on which the upstart cities such as Suzhou and Wuxi cannot afford to embark. "Aeroplane building and automobile manufacture - these other cities can't do that. We have to make people more aware by raising the quality of our products."

But the Mayor, who prides himself on being a populist, is aware that Tianjin residents cannot be pushed too quickly to change, and is determined to get the gas right and improve the quality of housing so that reform does not become a byword for sacrifice or austerity.

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CHINA 15

An economic artery, forever on the verge of a coronary

Glitter of Shanghai survives congestion and decay

EVERY DAY 1m people swarm across the intersection of the Nanjing and Xizang roads in downtown Shanghai.

Whenever you go, all the 1m seem to be there too, half trying to enter the Number One department store and half struggling to get out. You go where the crowd current sweeps you rather than where you really want.

The surging throng moves faster than the solid, crawling lines of cars, trucks and buses whose drivers relieve the frustration of going nowhere by leaning on their horns and revving their engines to belch more pollution into the air.

This is Shanghai: Energy, industry, culture, the fading remains of a colourful, colonial past as one of the world's great seaports. But above all people more than 5m crisscross into the city proper, and up to 12m if one includes the suburbs and satellite cities.

Shanghai is a main economic artery of China, perhaps even the heart, and it is suffering the effects of chronic congestion. Yet the imminent coronary thrombosis never quite materialises.

The official statistics reflect part of the cost of the gradual collapse of the infrastructure in what was once one of the world's top three or four trading ports.

The local GDP slid from Yuan 18bn in 1985 to Yuan 17.5bn in 1986 and an estimated Yuan 18.5bn in 1987. The average local inflation rate for 1986 was 6.7 per cent, but in the first 10 months of this year the average rate was 8.5 per cent. Wages increased by around 13 per cent in each of the two periods.

But the youngsters who gather in knots along Shanghai's historic waterfront, The Bund, to practise their English and engage any and every foreigner in conversation are quick to dispute these figures.

"Sure, our wages are going up but prices are going up faster," says an earnest young factory worker who probably turns in to the Voice of America station. A BBC World Service devotee - they speak more clearly and read from good books - agrees. "The official figures always show incomes higher than prices, but when you go shopping it is not so."

The answer lies in what people want to buy and in the rapidly

widening income differentials as more workers get bonuses - often paid on demand rather than being linked to productivity. Local exports will probably total only \$5bn in 1987 compared with \$2.8bn in 1986. Yet locally consumed imports have jumped by nearly 80 per cent from \$680m to \$950m in the same period.

The volume of retail goods sold by the end of October this year was 16 per cent higher than the same period last year while savings in the banks over the same timescale rose by 23.4 per cent.

So Shanghai is producing less while its people are earning more. Those who contain their lifestyles and put their bonuses in the bank are getting richer, but the young people who want to spend their money on consumer durables and luxury-imported goods find prices are outstripping wages.

The young do not care too greatly about the implications of this. Shanghai has always had a glitzy side and the Shanghaiese like to feel they are leaders of fashion and style. Like many Chinese they are prepared to pay a substantial premium for a Japanese refrigerator or washing machine even though the locally-made products are now (nearly) as good.

A young man says he is prepared to pay a full month's salary or more on a jacket, but it must be really good as he may not be able to afford another for five years. "And it would need to be obviously fashionable," he adds, inquiring whether his leather coat would be up-to-the-minute in the West. (It would but almost certainly will not be in five years). His girlfriend's Day-glo sweater, purchased for "too much" from an independent stallholder in the free market is, on the other hand, poorly made and it shows.

The World Economic Herald, based in Shanghai, is prominent in the city's current debate about its future direction. "Increasingly, intellectuals support the view that we should concentrate on the tertiary sector - banking, insurance and tourism - rather than the industrial sector," says Mr Zhu Xing Qiong, deputy editor-in-chief.

In fact, this used to be a highly profitable sector for the city,

generating about 40 per cent of local GNP in the 1960s. "Then we had 30 years of wrong guidelines when we tried to turn our consumer city into a producer city by concentrating on industrial development," says Mr Lu Hexiang, deputy chief of the city's long-term planning department.

"During the Cultural Revolution the tertiary sector slumped to only 17 to 21 per cent of our local GNP," he adds. The level is now 28 per cent and the goal is to get up to around 30 per cent by 1990.

But whichever development path Shanghai takes, it is unlikely to lead anywhere very fruitful unless the enormous infrastructure problems can be ameliorated. The city's transport services - the airport, the harbour, the railway - they are all malfunctioning.

"We do have very severe problems and our people suffer from very poor housing and serious pollution. This affects our development and inhibits further opening to the outside world and the attraction of more foreign investment," Mr Lu admits.

Last year the city leaders outlined a range of ambitious projects: an eight-mile underground railway system, an airport extension, a new bridge across the Huangpu River, a water purification and sewerage system, a new telecommunication system, and the completion of a desperately needed new tunnel under the river.

"The tunnel is nearly finished but we have major difficulties in other fields. We estimate that solving the transportation problem alone will cost Yuan 40bn because of so many years of neglect. Local government cannot borrow such huge sums so we must depend on central government support for our plans," says Mr Lu without delving into the known lack of love between Shanghai and Peking, which has always bled the city of its huge trade and foreign exchange earnings.

Negotiations for financing for the underground system were dragging on last year and are still dragging on. "We have to conclude these talks in 1988 or it will never get built. Britain, France and Italy have offered loans but with conditions tying us to their technology. That is

why we are still looking. We would really like a World Bank loan," Mr Lu says.

Meanwhile, Shanghai has pulled back from its rapid programme of hotel development. The city will soon have as many hotel rooms for foreign tourists as Hong Kong but no traffic, parking or shopping systems to go with them.

The few glittering attractions such as the Jade Buddha Temple, the Jing'an Temple, and the charming old town with the Bridge of Nine Turnings (zig-zagged because evil spirits cannot turn corners) and the Huixinting Teahouse, are all difficult to get to through the traffic and seething with visitors. The city's great waterways remain almost wholly unexploited for tourists.

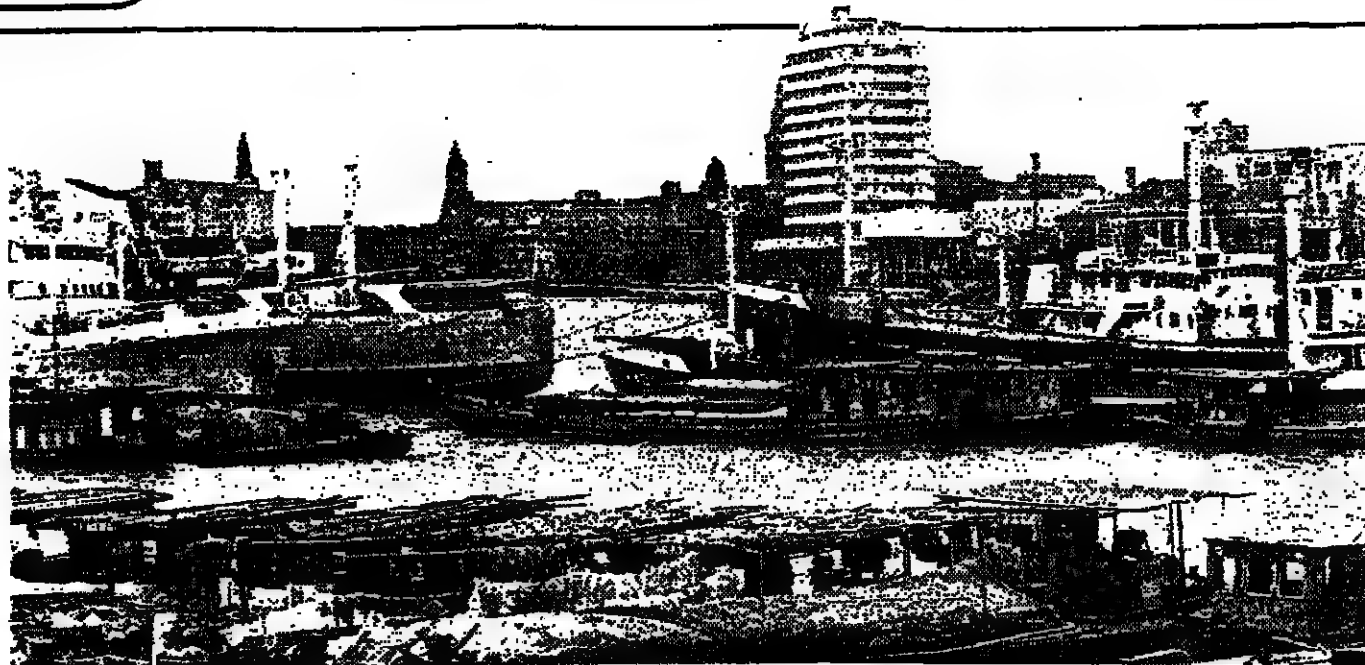
Yet, despite the legion of problems and the air of decay over much of its once grand architecture, Shanghai remains a great city with a romantic allure for visitors. It is partly its cosmopolitan history, with the British and French concessions still clearly identifiable, the history of the Opium War and the opening of Shanghai as a Treaty port, the image conjured up by adventurers in the 1920s and 1930s, later glamorised by Hollywood, but also the fact that the city is at the centre of things.

Shanghai was China's capitalist heart. It was where the Communist Party was founded and held its first party congress, support for the excesses of the Gang of Four was centred here during the Cultural Revolution, student protests were larger and more prolonged earlier this year in Shanghai than anywhere else in the country.

It is a city of strong opinions whose people want to be at the forefront. Whether the cleverest people come from Shanghai or come to Shanghai remains as much a matter of debate as ever, although now the young argue about it in smart new coffee bars where the latest Chinese craze - real coffee - is available.

But some things, like the traffic jams, never change the ageing jazz band in the coffee lounge of the Peace Hotel works through its repertoire each evening. It is still slightly out of tune and seriously out of tempo. And it still packs them in.

Robin Pauley
Asia Editor



Shanghai's historic waterfront, the Bund

McDonnell Douglas joint venture

Each side blames the other

THE SCHEDULE for greater Chinese involvement in the production of parts for McDonnell Douglas MD-82 passenger aircraft being assembled in Shanghai has been seriously delayed, with each side blaming the other.

Mr Liu Yi, vice-president of the Shanghai Aviation Industrial Corporation, says that under the contract signed with the US aircraft manufacturer in 1984 all components for the first three jets produced will be shipped to China from McDonnell Douglas plants in Long Beach, US, and Italy, and the Shanghai operation will consist only of final assembly.

But from the fourth aircraft, due for delivery before the middle of next year, manufacture of some of the non-avionics technical pieces will shift to China. These include horizontal stabilisers, main and nose landing gear doors, nose fuselages and cargo doors. The contract specifies 30 per cent of the total value of the contract to be offset in compensatory trade, half in aviation products and half in non-aviation products.

"We first had to delay the phase for manufacturing parts to China from the fourth to the seventh plane due in 1989 and now it appears we have to delay it again beyond that," McDonnell Douglas keeps making excuses. First, it did not want to stop a Long Beach assembly line. Then it said some of the parts scheduled for us to make were fitted to US military aircraft and the US Defence Department had refused to allow these to be

made in China. We talked to President Reagan's advisers and wrote to him in May but have no reply. It is all extremely disappointing."

But Mr Gareth Chang, president of McDonnell Douglas China, says: "We had no problem with the schedule to have China build more parts from No 4 on, but we told them that if they could not deliver the planes on time and if there were any penalties from the airline they would bear the responsibility. Faced with that, they agreed the No 7 plane was safest. With the quality issues and all the work and the training which needs to be done, beginning on No 7 is a very wise decision."

He denies the plan has slipped again beyond the seventh jet but agrees there have been many problems on both sides over the retiming of production of parts in China. It was this rescheduling which had caused the continuation of the Long Beach production line, and not vice versa.

The Defence Department was not concerned with commercial aircraft. But there had been a problem over the export of production machinery. This had been resolved.

But Mr Liu said the Americans had caused the difficulties, while China had faithfully kept its side of the scheduling deal. "McDonnell Douglas were three months late signing the contract, yet we still delivered the first plane on time in July. The second is test-flying now and will be delivered on schedule next month and the third in March," he adds.

The deal is for a total of 25 of the 155-seat MD-82 aircraft by 1991 with options for a further 15 if the market warrants it. The two sides calculate the value of the deal in different ways. The US values it at \$600m, while China counts it as \$1bn. Either way, the co-operative project is the largest transfer programme in China both in terms of technological content and value.

In spite of the differing versions on how well the deal is going, the Shanghai Corporation continues to make the nose and main landing gear doors for the McDonnell Douglas MD-80. More than 300 sets have been delivered and fitted to these aircraft which are manufactured in the US.

It was this arrangement, started in 1979, which led McDonnell Douglas to bid for a co-operative assembly venture in Shanghai, a contract which Boeing also fought hard to win. Boeing is still trying to negotiate a deal with Shanghai for the assembly of its Boeing 737 plane on the same site as the MD-82.

McDonnell Douglas beat Boeing because its terms were more favourable, although we are not currently getting delivery of those terms. Boeing is still trying and is using a lot of propaganda in China to promote its new 737 aircraft," Mr Liu says. McDonnell Douglas, meanwhile, is also hoping to gain an expanding foothold in China and is discussing its ideas for the production of medium-range passenger jets to meet China's commercial requirements into the next

decade. So competition between McDonnell Douglas and Boeing for new contracts is likely to be intense, with the Chinese likely to squeeze the maximum technological involvement out of both during the bargaining.

The MD-82s are being delivered to CAAC, China's national airline, which currently has more Boeing than McDonnell Douglas jets in its passenger fleet.

Although the Shanghai operation is a co-operative project rather than a traditional joint investment venture, the difficulties encountered in meeting original plans and expectations are typical of those which have plagued such initiatives in the past, particularly those involving automobiles. There have also clearly been personality clashes in Shanghai, another fairly common disruptive feature of bilateral ventures in China.

The one thing both sides in Shanghai can agree on is that the 3,000 Chinese workers and engineers have vastly differing pay rates to the 50 or so Americans. The Chinese have a basic wage of Yuan 150 (\$40) a month and with bonuses that could rise as high as Yuan 250 (\$65) a month. "Some people do the same work as the Americans here and sometimes do it better. The Americans get \$800 a day. We would have to work more than a decade to get what they get in one month," says a Chinese worker in the assembly hangar.

Robin Pauley

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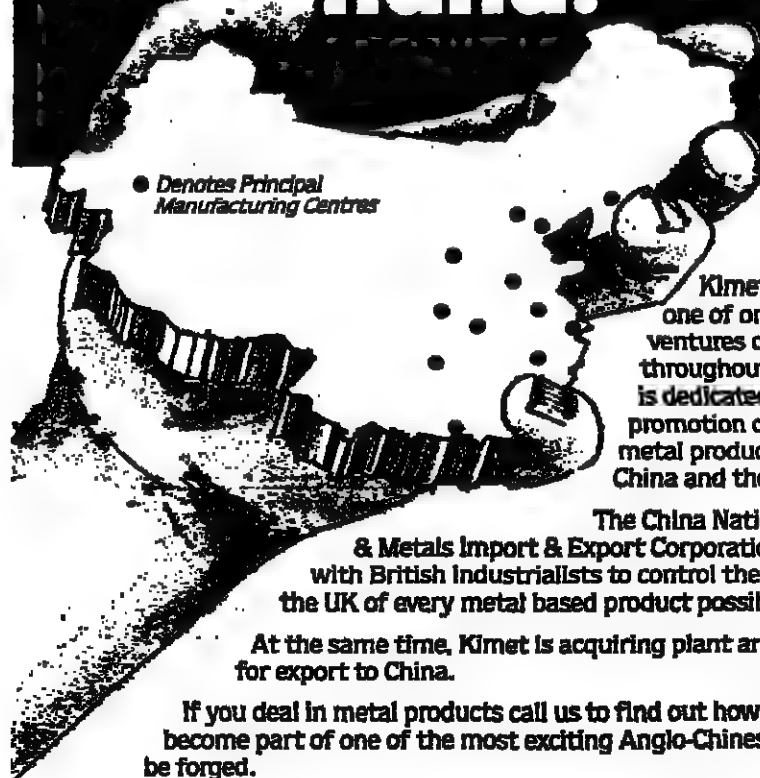


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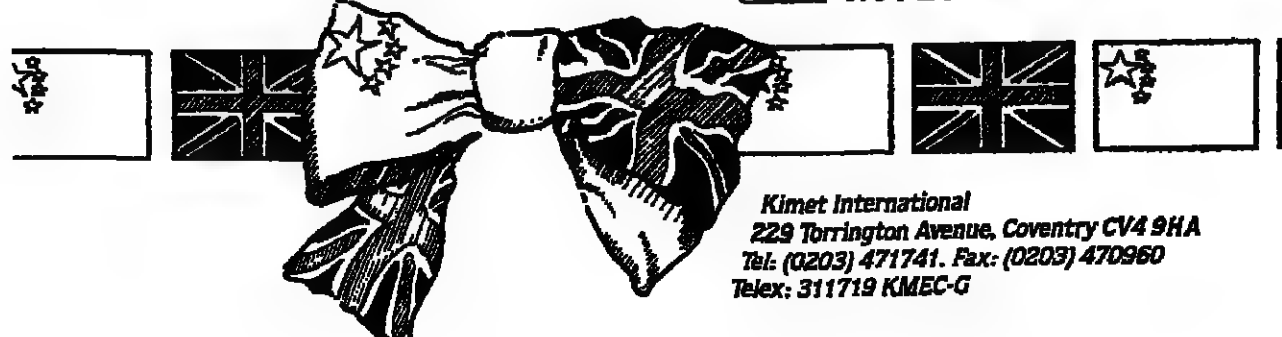
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CHINA 16

Jiangxi

Reformist influences afoot

ENSHRINED in a glass case in the much-venerated August 1 Uprising Museum in Jiangxi's provincial capital, Nanchang, lie a neatly folded coat and tie beside a pair of wire-rimmed spectacles. They once belonged to newly appointed Acting Premier Li Peng's father, Li Shuoxun, a Communist, was killed by the Kuomintang in 1932.

In a gloomy hall of the museum hangs an idealised painting of a meeting of Central Committee members in 1927, one of whom was Li Weihan, father of newly-elected Politbureau member Li Tieying. These relics spotlight the bonds linking past and present in Nanchang, scene in 1927 of the Communist's abortive attempt to capture the city from the forces of Chiang Kai-shek.

Today Nanchang is a sprawling and unglamorous town in the heart of a land of fertile rice paddies. From it a road runs down the centre of the province to Jian, rural birthplace of recently retired (but still powerful) conservative Politbureau member, Yu Quli. As far as the eye can see stretch fields and fishponds, tiny villages and clumps of trees.

Beyond the plain lie the mountains where, at Jinggangshan to the west, the young Mao Zedong



Jiangxi is a poor province but its revolutionary history has earned it special aid

and his men set up their first "revolutionary base". "Chairman Mao lives in our hearts forever," reads one slogan painted on a wall there. "Learn from Dazhai" reads another, surprisingly since this model commune was discredited in 1979

when supreme leader Deng Xiaoping embarked on economic reform. It was from Jinggangshan that the Communists set out in 1934 on the Long March to find a safer hide-out.

Though typical in many ways of China's inland provinces,

reformist influences are afoot. Earlier this year, Ni Xianco, its governor, was sacked for corruption in a spectacular case which involved sex as well as money. Jiangxi has China's only woman provincial party boss, Wan Shao-fen, who writes poetry and enjoys hiking, fencing and ping-pong.

Still more telling, Jiangxi is the scene of one of only two bankruptcies which have been allowed in China. Bankruptcy and the so-far-unpublished bankruptcy law have proved highly controversial. The resulting problems, such as what to do with redundant workers, are currently modifying Peking's plans to institute the practice.

The Nanchang Underground Department Store (now over-ground since the dump below

was obliged to close earlier this year with debts of Yuan 1.62m after the provincial leadership cleared the step with the National People's Congress and the Supreme Court. It is now under the management of sparkling Miss Plum Fragrance Wu, who took on the lease of the premises. Since April, she has made a profit of Yuan 39,000 on a turnover of nearly Yuan 4m.

This case shows up the problems faced by the reformers. When retired conservative elder



Growing prosperity in Jiangxi's villages means new houses but peasants stick to traditional style

statesman Bo Yibo read about it (in a Japanese news agency item) he sent an investigator to Nanchang to find out what the provincial government was up to. In the event, he had to admit that the Nanchang officials had behaved within the law, but six months later they are still defensive. Party boss Wan faces similar interference from local conservatives.

Jiangxi is a poor province but its revolutionary history has earned it special aid. As many as 20 counties are regarded as "backward" - euphemism for poverty-stricken - but the Government has a three-year programme to provide them with adequate food and clothing, provincial planners say.

The Government in Peking, mindful of the loyalty of the

former Kuomintang army, has given Yuan 200,000m in subsidies. Party Secretary Wan's male colleagues allegedly sneer at her "women's welfare programme", but Peking's reformers support her.

In imperial times Jiangxi was

quite prosperous, with healthy rice exports and the world-famous porcelain kilns at Jingdezhen. Today, with a population of 36m and a gross income of Yuan 32bn, it is hardly rich. Still, incomes have risen quickly since 1979, thanks to Deng's reforms.

The real hardship seems to be confined to outlying areas such as the heavily eroded eastern "red earth" region. Here the World Bank has given a \$50m loan to improve agriculture with water and chemical fertilisers, but this has been enough only to cover a fraction of the area.

The province is still a rice exporter, and works hard at cash crops like sugar cane and oranges. In surprisingly well-wooded mountains (most forests in China have been destroyed by indiscriminate felling), timber and bamboo feed paper and simple furniture industries. Dajing village in Jinggangshan not only employs its local youth making bamboo mattresses but sells bamboo to the furniture industry of nearby Anhui province.

Industry proper is more prob-

lematic. "Our biggest shortage is of talent," says Mao-suited director Wang Ying of Jiangxi's planning commission. Nanchang is starting up a steel tubing plant bought from the British Davy McKee but its technicians are baffled by the 1980s electronic wizardry. "We're leaving in a fortnight and they still haven't a clue," says one visiting engineer.

Another British company is installing a brake seals plant in the remote, one-horse town of Yichian. "I couldn't find a piece of electric cable anywhere in the town," comments the engineer. As elsewhere in China, planning is irrational, with the paper mill at Jinggangshan bringing imported wood pulp many hundreds of kilometres from Shanghai and exporting the finished cigarette paper to Hong Kong. More logically, the province plans to install a copper tubing mill from West Germany which will use raw materials from its rich copper mines at Guidi.

Jiangxi has no lack of mineral resources. Its deposits of tung-

sten, uranium, gold and rare earths are among China's largest, but transport is poor. There may even be oil in the hills, though the US company investigating there has not revealed its plans.

Foreign investment is steadily rising, with 68 joint ventures approved to the end of October this year and 23 already in operation. Total foreign investment contracted for so far is \$163m, with \$58m already committed. Of this last amount, \$25m came in the first 10 months of this year, already topping the 1987 target.

The biggest joint venture so far is one with a Hong Kong partner for a TV plant. Under the contract, 30 per cent of the output is sold to Hong Kong, which produces the foreign exchange needed for components and profits. Like other provinces, hotels - in this case in Nanchang and Jiujiang - have proved a magnet for investors. Jiangxi's next problem will be to find the tourists to fill them.

Colina MacDougall

Jinggangshan

Saying the right things

"THIS IS the cradle of the Chinese Revolution," said 39-year-old mayor Liu Jifu, waving his arms dramatically round the reception room in the hotel at Jinggangshan. He paused for effect. "It's now a tourist resort, but it was the Communists' first revolutionary base."

Mayor Liu, in a natty black Western suit, did not look much like a revolutionary himself. "But I've asked to work here to devote myself to the needs of Jinggangshan's people," he said. "Thirty per cent of them lost relatives as 'revolutionary martyrs'. It is a beloved spot with great potential."

Jinggangshan was indeed one of the young Mao Zedong's hide-outs, and its peasant population suffered badly at that time. But it has to be said that because of its fame, it will always be in the public eye. A young man seeking a speedy rise up the ladder of

promotion could do a lot worse than apply to work there. Mayor Liu must be typical of at least some of China's young officials. The college education, so fashionable in China these days, was gleaned at Nanchang's Communist Party school where he studied national economic management. His last post was as a legal officer at the county level of Jian, west of Jinggangshan.

A forceful man, he has older officials eating out of his hand. What may be worrying is his lack of experience. In the meantime, he knows how to say the right things.

"Of course, I plan to settle here, and send my daughter to the local school," Mayor Liu revealed, drawing gasps of admiration from the assembled cadre of officials. One made an impassioned speech about the inspiration he drew from such self-sacrifice. The regard (or was

it fear?) in which he was held locally was evidenced by the way the manager suddenly switched on the central heating to warm up the damp hotel as he arrived.

As local boss, Mayor Liu has considerable power to affect people's lives. There are far too many administrative workers here," he said. "Following the recent 13th Party Congress, we plan to send more than 400 to the grassroots," a fate considered worse than death by many Chinese officials.

A certain lack of sympathy pervaded his speech. "Of course we'll make proper arrangements for them," he said airily. "They can provide guidance and advice on starting enterprises or raising fish. We'll have to wait till China's new enterprise law is passed next year, but then we may be able to amalgamate several departments."

He has ambitious plans for putting Jinggangshan on the map. Isolation is an important bar to developing the tourist industry. He wants to take over a small strip 80 kilometres away and buy planes to run the county's own airline. One wonders also about his scheme to double to 10,000 the number of cattle grazing on the mountains.

Even a white-kid like Mayor Liu can be defeated by China's bureaucratic system. Jinggangshan has at least eight beauty spots he would like to develop, but several of them are in nature reserves or mountain reclamation areas, and therefore under other organisations. The Jinggangshan municipal government in theory has overall control, but "we anticipate problems." If he trips on any of those, the fall will be all the harder since the town is so famous.

Colina MacDougall

Population

Growth rate exceeds target

"THE CHINESE don't really believe any longer that they can keep the population down to 1.2bn in the year 2000, their original target," said a programme officer at Peking's UN Fund for Population Activities headquarters. "They've started saying 'about' 1.2bn, and the projections suggest they're expecting a figure of 1.25bn to 1.29bn in that year. It could go as high as 1.3bn, and even reach 2bn by 2030."

Chinese officials are reluctant to admit openly that the situation may reach crisis proportions. Dr Liang Jimin, director of the General Office of the State Planning Commission, says he hopes that the 1.2bn target can be met, so the number may stabilise by 2030 at 1.3bn. This has begun to seem increasingly unlikely as the population growth rate is rising with alarming speed.

Peking's State Statistical Bureau held a sample survey on July 1 which revealed a population size of 1.07bn, growing this year at a rate of 1.45 per cent. It is on this basis that UNFPA has made its new projections. We hope we can avoid a fourth, but we're not very sure.

Peking has been taken by surprise at the sudden rise this year which the sample census revealed. Growth in 1986 was only 1.1 per cent, and in 1984 1.06 per cent. The worst problem is the rural couples who have two children," says Dr Liang. "There are 13 provinces now where for various reasons several children are allowed, for instance if both parents are themselves single children. All couples want to have a boy, and some want two. Nationwide, one per cent of couples have one child."

In 1986 multiple births totalled 17.3 per cent of the total. These include China's ethnic minorities, who have special privileges. Last July's sample census revealed that the proportion of minority peoples in the total had risen from 6.7 per cent in 1982 to as much as 8 per cent now.



The lone child is very much the exception

population grew extremely fast - in 1965, for instance, at over 2.8 per cent. These children are now producing their own offspring, and the bulge is unlikely to flatten until the end of the century. "China's first population growth peak was in the 1960s, and the second in the 1980s and early 1990s," says Dr Liang. "The children born in the second peak are now producing the third. We hope we can avoid a fourth, but we're not very sure."

Earlier marriages are on the rise. The late marriage rate dropped from nearly 50 per cent in 1984 to only 30 per cent in 1986, Chinese figures show. At the same time, the number of women in the reproductive age group rose from 240m to 250m.

Making matters worse is the unreliability of Chinese birth control methods. "None of our contraceptives is any good," Jiangxi province family planning officials told the Financial Times. "This was endorsed by UNFPA. Forty per cent of Chinese women use the IUD, and Chinese-made IUDs are highly unreliable," their officials confirmed. "The pregnancy rate of women using the IUD can be as high as 20 per cent," says Dr Liang.

In the last few years pressures to stick to only one child have declined. Chinese records show that the acceptance rate for the "one child certificate" has dropped from 18.9 per cent in 1984 to just over 15 per cent in 1986. The certificate entitles parents to benefits and cash for the child, but in the booming rural economy these are now less meaningful. "The peasants' current freedom to grow pretty much what they like also encourages more children, since more labour means higher incomes."

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Chinese-made pills, used by over 6 per cent of women, carry a variation in dose which can be as high as 30 per cent. The acceptable norm outside China is 5 per cent. Chinese manufacturing equipment cannot produce a higher quality.

The State Family Planning Commission is working on an implant system which would give protection for five years, but it is still some way off.

Abortion remains the chief means of birth control, with numbers equal to half the live birth total, Dr Liang says. He denies that the Government's policy is coercive. "We try to educate people," he says. The US Government has cut its contribution to UNFPA because of earlier reports of compulsory terminations.

The UNFPA programme in China has so far allocated \$100m for the years 1980-89 which is being used for 36 projects. Five of these are factories producing contraceptives. One of these, at Tianjin, will make the "copper T" IUD type, which has a failure rate put at only 2 to 3 per cent.

But better contraceptives will only marginally affect the birth rate since abortion takes care of most "out of plan" pregnancies. Chinese neighbourhood and enterprise committees in the towns allot birth quotas which are tightly supervised. In rural areas it is easier to escape prying official eyes, though in any case the policy is less restrictive.

China appears to be planning its hopes for population control on better education and publicity. "We try to persuade couples to think about the whole nation," Dr Liang explains. "Then most will volunteer to practice family planning."

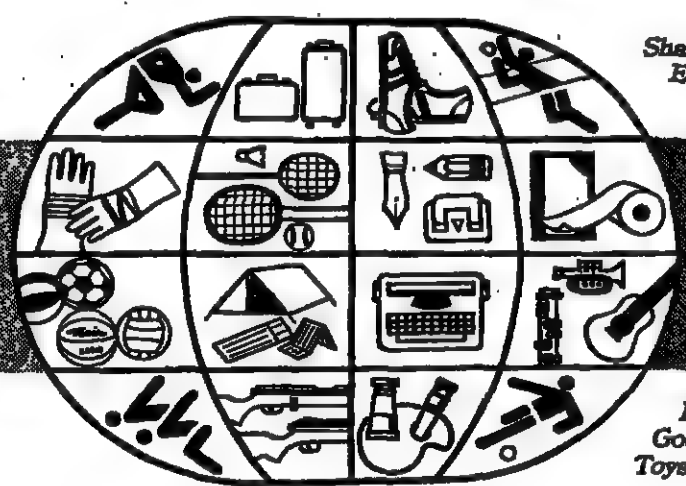
But however the Government tackles the question, prospects for staying within its targets do not look good, and growing population numbers can be expected to threaten economic growth.

Colina MacDougall

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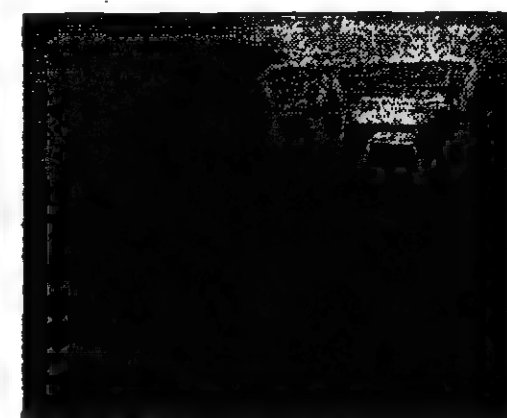


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CHINA 17

Agriculture: dispersal of farm collectives has caused a problem

Grain shortfall will raise imports

GRAIN PRODUCTION simply does not pay in China, the world's largest grain producer and consumer.

This fact has dogged the Chinese economy for over 30 years, and is now pressing on Chinese policy-makers in the wake of stagnation in nationwide grain production.

"The problem now is that consumption is increasing at a rapid rate, but production is going up only slowly," says a Ministry of Agriculture official.

In the early years of the Chinese Revolution a newly-installed Communist Party government reacted to an impending food shortage by imposing a state monopoly over the grain trade, and attempted to boost production by issuing compulsory production quotas. When the command system failed, an "agriculture first" policy was given lip service in the early 1960s, and appeared to be given some substance in the 1979 reforms, which ushered in the first significant increase in farm-gate prices in over 15 years, and in effect put an end to collective farming.

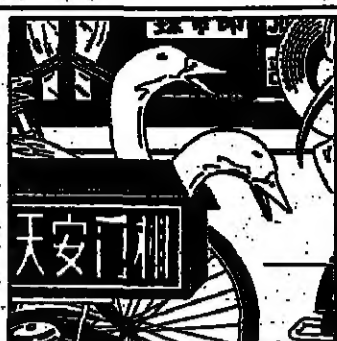
Yet after an initial surge forward in grain output during the early years of the 1980s, the benefits of the reforms appear to have run their course. Ministry officials now expect the 1987 grain harvest to reach about 400m tons. This is below the record of 407m tons achieved in 1984, and has set the stage for a sharp rise in grain imports, which some diplomats believe could reach 13m tons this year.

The stagnation of grain production raises a host of questions about China's ability to feed itself and to continue improving diets as incomes go up. China can use imports to supplement its own food production, but the scale of its food needs could put severe strains on the world market should China decide to buy, say, as little as 10 per cent of its food abroad.

The spurt forward in grain production earlier in the decade was deceptively easy. State investment in agriculture had never been particularly high. Yet under the old system of collective agriculture, which has now been dismantled, rural communes managed a high level of public investment in machinery, irrigation works and field construction, even though these may have been uneconomic under the then-current price structure.

When individual incentives were restored by dispersing farm collectives, peasant households

The world market would be strained should China decide to buy as little as 10 per cent of its food abroad



began to make far more efficient use of available resources. More money was placed directly in the peasants' hands. This money helped to fuel a housing construction boom in the countryside, which in turn stimulated rural construction materials businesses.

Surplus income was quickly spent on housing and consumer goods, and any extra was not to be invested in unprofitable grain production. This was to see its way instead into lucrative rural industries, ranging from process plants for agricultural products to simple machine shops.

The result has been a much needed exodus of labour from the fields, and a vast improvement in rural living standards. Village and township industries now account for some 21 per cent of China's industrial output. The output of these industries increased by 30 per cent last year alone. It is quickly catching up with the value of agricultural output, and is the principal source of cash for most rural families.

While this is mainly a good news story for China's 800m peasants, it has unfortunately been accompanied by a significant decline of investment in crop farming. More and more stories are emerging not only about the failure to expand irrigation systems but of the failure to maintain systems in place.

Irrigation ditches have become clogged and pumps broken. Irrigated land in China fell by over 2 per cent from 1985 to 1987 as local government officials lost the authority to requisition labour for water conservancy work. While the Government loudly trumpeted its "agriculture first" policy, and watched yields rise, direct state investment in agriculture fell from 12 per cent of national budgetary expenditures before 1978 to 5 per cent in the first half of the 1980s.

This loss of money to the rural sector was probably more than compensated for by the sharp

increase in farm-gate prices and by a vast expansion of the rural credit system. But dispersed into the hands of peasant households farming small, scattered plots of land, funds were not reinvested into agriculture, which promised a low return compared to the possibilities of small-scale industrial enterprises.

The average per capita housing for peasants has more than doubled since 1978 to 15.29 square metres in 1986. This, combined with the steady expansion of rural industries, and more emphasis on cash crops and aquaculture has led to a steady reduction of the planted area of grain. New land has been brought into cultivation, but it has been marginal land, rather than the best quality land.

The steady rise until 1984 in output appeared to make the Government overconfident. In 1984 the harvest was so successful as to strain the Government's grain storage capacity as well as its financial ability to maintain grain subsidies. Then in 1985 the Government suddenly scrapped a 30-year-old pricing structure for state grain purchases. The

effect on average grain prices may have been neutral. But the change in pricing structure eliminated above-contract bonus pricing and had the effect of slashing prices at the margin for the most efficient food producers.

This, combined with a nationwide squeeze on credit and relatively bad weather, led to a sharp drop in the year's harvest. Unlike in previous years, however, when problems in agriculture tended to creep up on the leadership with a sudden fury, the more open atmosphere in China has permitted the problem to be discussed publicly, and the Government has begun to adopt measures to correct it. One of the first steps came in late November, when new regulations were approved to strengthen the authority of "village committees," the remnants of the old production brigades. The aim is to give them the authority to organise labour brigades to maintain irrigation works and to rationalise field management so that machine plowing and pest control can be effective and economic.

The rationale for strengthening the village committees sounds amazingly similar to the original reasons given for collective farming over 30 years ago. It will presumably mollify conservatives who have always been uncomfortable with the agricultural reforms. Yet it remains to be seen whether the authority of village leaders can be effectively restored, and whether under the new atmosphere a collective decision to invest in crop farming can be sustained in the absence of an attractive economic return.

Given the current price struc-

ture, farmers may be better off to let investment slide. The Government has promised to raise its direct budgetary outlays for agriculture, but, says one official, "they keep saying this but they haven't done anything."

The Government is also hoping to improve the investment environment for farmers and is currently drawing up new regulations that would allow farmers to recoup any investment in land they pass onto another family for cultivation. This would amount in essence to new rules for the buying and selling of agricultural land, but past experience indicates that many peasants prefer to hang on to any land, even if they cannot cultivate it. Land brings a security that many peasants far prefer to cash.

In principle, peasants do not own land in China, but are only granted rights to farm it. Continued uncertainty over the future system of land use and ownership has discouraged long-term investment in land improvement. Even Chinese officials now recognise that, in the long run, agricultural investment is unlikely to rise much if producers have alternate investments that offer much higher returns.

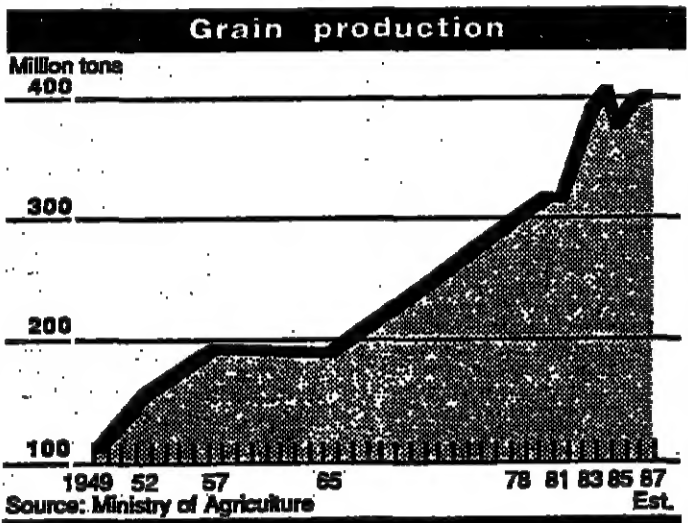
The Government is left squarely facing the blunt problem of agricultural pricing. The effectiveness of the price mechanism in China is plainly apparent in the case of cotton, in which China moved from being the world's largest importer in 1978, to its current status of a net exporter. When cotton production dipped in 1986, the Government raised prices, and production shot up by over 10 per cent this year.

Cotton, however, is closely tied to the foreign trade sector and the cash economy, where the Government does not have to raise subsidies. But the price of grain on the market in China is a social issue.

The Government managed the 1979 and 1982 grain price increases only by increasing subsidies to urban dwellers, so that the government procurement cost in the countryside is now well above the urban sale price. The root problem is that urban wages are too high, and that the Government must manage a further redistribution of income through the price mechanism.

China is now believed to be studying ways of raising grain procurement prices and passing at least some of the increase to urban consumers.

Steven Butler



The village bamboo industry has been boosted by China's construction boom

Village profile: Dajing

A quieter revolution

NESTLED AMONG the lush peaks of the rugged Jingang Mountains, in Jiangxi province, the village of Dajing could easily be mistaken for a kind of bucolic paradise, with its pure air, abundant water, and quiet surroundings.

A rambling country manor, restored and carefully preserved in the centre of the village, provides just the faintest reminder that Dajing was once at the eye of an epoch-making storm. During the Chinese revolution, nearly 60 years ago, Mao Zedong made his headquarters here and used the natural defences provided by the mountains to shield the first important revolutionary base.

Dajing is now in the midst of another kind of revolution, which began in 1977, when the village leadership moved surreptitiously to evade the tight strictures of state control over production. The village quietly divided up the land among farm households, a policy that was sanctioned only two years later by China's Government.

"We did it ourselves, on our own initiative, because we saw that the production team system of collective farming just didn't work," says Huang Zhongmin, the village leader. In the ensuing nine years, per capita income in the village has almost tripled

from Yuan 135 in 1977 to Yuan 400 last year, while grain yields have nearly doubled to reach 1,550 kilograms per hectare this year.

These statistics tell a simple and very real story of increasing prosperity for the 27 farm households in Dajing, who are now able to afford televisions, bicycles and watches for the first time.

Yet even Dajing, a remote mountain village, clearly reflects the growing pressure on the Government to find new ways to boost the lagging agricultural sector. Household income in Dajing is well up and moving strongly forward, but only as more labour leaves the fields to earn money in industrial and agricultural processing industries.

In fact, Dajing's rice yields leapt forward in 1978 in response to management changes, and have since increased only slowly. Even more telling, the 54 per cent increase in unit yields has been matched by only an 86 per cent rise in gross yields, reflecting a slow-but-significant conversion of fields to cash crops and fish ponds.

Applications of chemical fertiliser fell by 60 per cent after mandatory government quotas were dropped. While this is not a national trend, and might well

be justifiable for Dajing, it illustrates the sensitivity of farmers to price differentials, and the problems that only a partial decontrol of prices still pose.

It is true that whatever the Government does to farm prices does not matter much for Dajing in the short run, since the village produces little in the way of marketable surplus food. Yet it is equally plain that for Dajing, like villages all over China, investment in grain production is unattractive.

That is for Dajing residents, of course, a rather abstract point of view, since they have plenty to eat. China's construction boom has boosted the village's bamboo and timber industry, and the decontrol of domestic trade has brought a steady stream of buyers from all over China.

The village now manufactures everything from simple bamboo furniture to chopsticks, and profits from these industries have been responsible for a substantial part of the village's increased income. Put crudely - economic development in the form of rising labour productivity has finally arrived in Dajing and at least one promise of the Chinese revolution that began there some 60 years ago is at last bearing fruit.

Steven Butler

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CHINA 18

Writers are still subject to the party's fitful benevolence

Traditional culture gives best of the new writing

WERE YOU to take a walk through any of Peking's bustling street markets on a crisp and sunny winter afternoon, your attention might well be caught by a ubiquitous book with a striking cover and a title which translates roughly as Painted Women of the Cinema Capital.

Better known in this part of the world as Hollywood Wives, it is currently a hot item for the enterprising market vendors who make their living by buying up stocks of popular works to resell at higher prices.

For those who cast their minds back to the rather ominous beginnings of 1987, the wide availability of foreign books of this kind, as well as the increasing diversity of domestic writing, may be something of a surprise.

The party's sudden expulsion of prominent intellectuals caused a sharp national intake of breath, as did its fierce condemnation of writers for presenting what it saw as the unacceptable face of freedom of expression.

In its war on excessive Western influence, the campaign against "bourgeois liberalism" attacked specific literary targets and urged leading cultural figures to join in. The silence was deafening, but by mid-year an atmosphere of apprehension and despondency reigned in cultural circles.

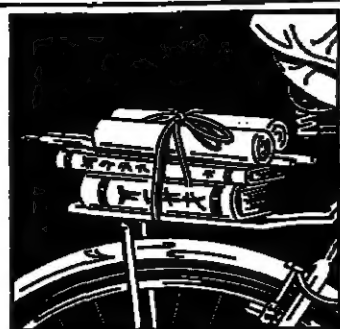
Prominent among the campaign's targets was Liu Xiwu, editor of the journal People's Literature, who was suspended from his post after publishing a work which enraged official sensibilities (and sent the magazine's black market value up to 80 times the cover price).

Ma Jian's skillfully written Show the Coating of Your Tongue or Empiness, the offending work, is an account of a young photographer's travels through Tibet and includes graphic descriptions of incest and adultery in remote mountain communities.

The work is but one example of a recent and growing literary fascination with morbidity, eroticism and strange imagery. In fact, current fiction abounds in rotting corpses and odd couplings, breaching conventional canons of taste and testing official tolerance in ways which would have seemed astonishing even two or three years ago.

Strange new characters are appearing, too. Despite being hampered by fairly unexceptional prose, the principals in

Ancient roots are being rediscovered by a new generation of artists and writers



widely discussed works such as Wang Suo's Half Flame, Half Sea behave with an amorality and indifference to China's political fate which is an almost exact reversal of the values of the granite-jawed heroes of the 1960s and 1970s.

Invariably urban and as often as not jobless, they live by their wits in self-sufficient worlds of petty corruption and casual liaisons, the children of a dream that has left too many questions behind it.

Much recent official ire has been directed against the increase in eroticism and popular author Zhang Xianliang has once again come in for attack, this time for his Good Morning, Friends, a novel about secondary school students. The work was rejected for official publication, although highly abridged extracts from it circulated in the tabloid press. Questioned about his sudden unpopularity, Zhang made the sort of distinction Chinese writers have evolved into a fine art and commented quietly that his work had attracted "criticism but not trouble".

The latter was certainly what

befell China's most respected author Liu Binyan, who for the second time in his career was thrown out of the party. A persistent critic of corruption and bureaucracy, Liu was accused of spreading "slandorous rumours" and of exposing the party's dirty linen in public.

In the spring, rumour illuminated with characteristic clarity the real minefields for China's writers, as word travelled round that the five forbidden subjects in literature were pornography, the Cultural Revolution, the Gang of Four, Mao Zedong and the 1958 anti-rightist movement.

Not that anybody needed to be told. It was obvious enough that although the scope of fiction had broadened sufficiently to include widespread flouting of the first taboo - a Western import, after all - the subjective history of the recent past, recorded in the experiences of actual human beings, was not to be confronted. At least, not yet.

If much of the "new wave" fiction in the arts may indicate an unwillingness to sieve through the ashes of the more recent past, but it is well to remember that Chairman Mao has been dead only a little over a decade.

The disciplining of intellectuals this year has cast a long shadow over the literary world and illustrated once again just how much writers are still subject to the party's fitful benevolence.

Nevertheless, the battered survivors, vagrants and beggars who have crowded onto the literary stage in the last year or two seem to be pointing to the continuing emergence of a strong new literary tradition for China, one which in the coming years will issue its own version of the past.

of the marshals and generals who led the Communist armies to victory has been a success with China's reading public. The army has found its way into a significant proportion of other writing too, although frequently with a realism which has disturbed critics.

The first work of its kind to appear in the People's Republic, Chinese Volunteer Army Prisoners of War, provides, despite its less than gripping title, a compelling account of the treatment of captured Chinese soldiers in Korean camps and of the general indifference of their own society to the maimed and disillusioned returnees. The work belongs to the new documentary genre which has been gaining ground, a reaction to the strong escapist tendencies of much popular fiction.

But it is the powerful revival of traditional culture, evident everywhere in the arts, which continues to provide arguably the best of the new writing. In the enigmatic rural worlds created by Ah Cheng, Jia Pingwa and Han Shaogong, the entrenched feudalism and superstition which Mao sought to destroy are described with an earthy realism.

Established older authors such as Gao Xuesheng continue to use peasant characters to make wry comments on the system, but it is the generation now in their 30s who are reclaiming China's ancient roots with modern, individualistic voices.

This move towards primitivism in the arts may indicate an unwillingness to sieve through the ashes of the more recent past, but it is well to remember that Chairman Mao has been dead only a little over a decade. The disciplining of intellectuals this year has cast a long shadow over the literary world and illustrated once again just how much writers are still subject to the party's fitful benevolence.

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Pushing forwards by Yuan Yunsheng; Chinese ink on rice paper

Painting

Diversity of open door art

THERE IS a great feeling of excitement when the door of such a giant nation as China is opened and the arts of such a rich culture burst forth.

Diversity and experimentation characterise "open door art", which in the last 10 years has blended China's artistic traditions with those of other cultures in a new and exciting way.

Take, for example, the work of Chen Dehong who uses Chinese calligraphy as the backbone of his painting. He takes the word for "horse" and combines its pictographic image with a Western use of composition and colour to express the character of the animal in lively and spirited brush strokes.

His depiction of a horse bursts forwards as a wonderful example of open door art full of energy and free of the fetters which have limited Chinese painting in the last 30 years.

For centuries the most important requirement of Chinese painting has been its spirit of vitality and rhythm, singled out by the art critic Xie He in his writings on art in the fifth century.

In Chairman Mao's day, after "liberation" in 1949, art was seen as a tool of the Revolution. Artists were strictly limited as to what they could paint and art was turned into a huge propaganda machine. Soviet realism was particularly suited for this purpose and has left its mark on the arts in the form of revolutionary posters and large oil paintings glorifying peasant uprisings and the Revolution.

Although full of revolutionary zeal, these works lack the true spirit of Chinese brush and ink painting through the centuries. That was almost stamped out during the Cultural Revolution (1966-76) when traditional painting was banned and labelled "black art". Like many others, the artist Yuan Yunsheng spent this period of his life looking after animals in a remote area of the Chinese countryside.

Since 1976 the lot of Chinese artists has greatly improved. Art colleges which were closed during the Cultural Revolution have

reopened. Artists were reinstated and traditional painting revived. The "open door" policy, accompanied by political and economic reform, has given artists in China more freedom than at any time since 1949.

In the post-Mao period artists have explored new forms and ways of expressing themselves. Today they can paint whatever they want as long as they avoid the areas of eroticism and political criticism.

As the door edged open in 1978, drawing from a nude model was permitted in the Art College in Peking. In art colleges further south, nudity was permitted but only from the waist upwards. In the more distant provinces it was still forbidden.

Gradually, restrictions have been relaxed but not before a raging controversy surrounding the 1980 depiction of nude women in Yuan Yunsheng's mural painting at Peking's International Airport. At first, the authorities suggested that the artist should clothe the figures. He declined to do so. Then a curtain was hung over the offending section, which made matters worse because people were constantly peeping behind it. Finally, the nude section was boarded up.

Yuan Yunsheng left China in 1982 for the US, where he has lectured at Harvard and recently completed a large silk tapestry for the university. Had his airport mural been completed in the more relaxed atmosphere of the late 1980s, it might well have continued to see the light of Chinese day.

Through the "open door" a stream of Western influence has flooded to the most remote areas of the People's Republic and a small but steady stream of Chinese artists has made its way to the outside world. In 1979, there was only a handful of Western art books in the library at Peking's Central Academy of Fine Arts. Today such books as Gao's Story Of Art have been translated into Chinese and the Zhejiang Art College boasts a collection of 200,000 Western art books and magazines.

Due to vastly improved communications and availability of material in the last seven years, Western art has had a tremendous influence on the younger generation. The result has been a fantastic variety of styles and experimentation of art forms. Abstract art, formerly banned, is now allowed. In the early 1980s there was wholesale copying of Western styles, such as surrealism. However many young artists are now rediscovering their own tradition, while incorporating Western ideas and art forms.

The recent clamp-down and student unrest earlier this year did not affect artists as much as it did the literary world. As in 1983-84, when the door closed slightly during the "spiritual pollution" campaign, artists waited for the storm to blow over. Now that the "open door" policy has been confirmed at last month's Party Congress, artists are confident that, within limits, there is relative freedom.

It is not so much a question of what is not allowed in the art world but of what is "not liked". The older generation of artists remains conservative and is still in charge. Abstract and avant-garde works have little chance of being exhibited in the major art galleries or exhibition halls where a strict hierarchy is observed and it is mostly the traditional works of older artists that are exhibited.

There is no art market in China, apart from that linked with the tourist industry. For the younger generation the chief means of showing work is through art publications. Since 1986 young artists have staged their own exhibitions and are responsible for financing these, but that remains a problem.

Many young artists look to the West for the chance to study abroad, to see original works of art and to exhibit and sell their works. There are no museums in China displaying a permanent collection of art from other parts of the world, nor is there any museum in China with a permanent display of modern Chinese art.

In the last six years, exhibitions of contemporary Chinese painting have travelled to the US and Europe. Until recently, these reflected conservative taste since Chinese officials were responsible for the selection, but now both artists and art experts are selecting and introducing modern Chinese paintings to the Western world.

One of the first Chinese artists to arrive in New York was Chen Yifei in 1981. His realistic works in oil then sold for approximately \$3,000. This year Chen Yifei's most recent works in an exhibition at the Hammer Gallery in New York fetched a record \$800,000.

The variety of open door art is enormous. There is no single school but rather a range of different styles drawing their inspiration from both East and West. One of the most exciting young painters in China today is the artist Leung Ching whose brilliantly coloured works in rice paper collage and mixed medium draw their inspiration from ancient cave paintings of Africa and Inner Mongolia.

Chen Dehong's new calligraphy works burst through traditional barriers with great spirit and energy, characteristic of the state of art in China today. Yuan Yunsheng contributes masterpieces of modern Chinese expressionism and his recent works in monochrome Chinese ink on rice paper show the variation of light and dark tones with a vitality throughout the centuries in China.

The works of these three artists were exhibited in London for the first time this autumn with tremendous success, and it may well be that the Chinese will have as profound an influence on art as the Japanese have had on business.

There is a chance to see the range and variety of contemporary Chinese painting in an exhibition of the works of 80 Chinese artists at The Arts Club, 40 Dover Street, London W1, until Wednesday, December 23.

Caroline Shanden



Hollywood Wives is currently a hot item

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Attack on fifth generation

CHINESE avant-garde film director Tian Zhuangzhuang, best known for The Horse Thief, once said that when making films he had in mind "audiences of the 21st century".

When he next appeared at the Peking film studio to pick up his monthly pay cheque, he was apparently told to "come back next century". It was meant to be a joke, but the hostility of China's film establishment towards younger, upstart directors is real enough.

Earlier this year, cinematic conservatives were given a perfect opportunity to vent their antipathy when elderly leader Deng Xiaoping ordered the world of culture to purge itself of "bourgeois liberalism", an ill-defined virus that had plagued the taken hold throughout the ranks of the Communist Party.

Shortly after Deng's call, Wu Yigong, the head of the Shanghai film corporation, in a nationally-publicised speech, castigated unnamed film-makers for having neglected the "concerns of the people". He declared pointedly: "I want to be a Chinese artist, not a foreign artist or a slave of the West."

Most observers read this as an attack on younger film-makers such as Chen Kaige, the 36-year-old director of Yellow Earth

(1984). Yellow Earth is generally regarded as a watershed in contemporary Chinese cinema for its successful break with formerly rigid artistic and political conventions. Like a number of other films by members of the so-called "fifth generation" of Chinese film-makers to which Tian Zhuangzhuang and Chen Kaige belong, Yellow Earth was highly controversial at home but a hit in cinemas abroad.

These younger directors make only a small fraction of the approximately 130 films turned out annually by the Chinese film industry. The masses seem to prefer Kung-Fu pictures like The Magic Blade (1986), melodramas like Sunrise, or urban comedies like the recent Zhenzhen's Beauty Parlour, which told of a young private businesswoman's trials and tribulations in running a hair salon in the new China.

It does not take an explicit ideological campaign to make life hard for China's artists, who under the economic reforms face demands to be profitable as well as the perennial problems of political censorship.

But this year has been especially difficult. Even veteran director Xie Jin found himself faced with a censor's diktat: Xie's latest film, Hibiscus Town

(1987), is essentially a critique of the Cultural Revolution (a movement, incidentally, which Xie had not long ago loyally served by directing such modern revolutionary opera classics as On The Docks).

Originally, Xie had added a postscript to Hibiscus Town to the effect that political campaigns were a thing of the past. Unfortunately, the film was released during the "struggle against bourgeois liberalism" (yundong), the name given to Mao's violent purges, but it was felt that Chinese audiences might take this final comment as an intended irony. Xie cut the postscript.

Meanwhile, Wu Yanning, the middle-aged director and head of the Xian film studio, who had helped to protect the younger film-makers, briefly came under a cloud. The prominent journalist, Liu Binyan, who had once written an article praising Wu, was accused in January of "bourgeois liberalism" and kicked out of the Communist Party.

Though Liu's "crimes" were unrelated to his article about the film-maker, Wu's enemies readily seized on the connection to make trouble for him behind the scenes. This stopped only

when Premier Zhao Ziyang, now the party boss, said that just because Liu had made some mistakes, all of his articles were not to be faulted.

In September, Wu's new film, The Old Well, swept up four awards at the Tokyo film festival, including best film, best actor and a special critics' prize. Yet the most important cinematic event of the year has been the appearance of Chen Kaige's third film, The Schoolmaster. Unfortunately, it was sent to the film bureau censors in August, by which time the political climate had cooled down: had it been submitted earlier, it might not have been passed.

The Schoolmaster is about a young man assigned to teach at a school in a remote mountain village during the Cultural Revolution. He sees that the propaganda-dominated texts are meaningless in the context of his students' lives and throws them out. Eventually, he is himself thrown out by the school.

Within this simple narrative, Chen has created a rich allegory about intellectual life and alienation in the People's Republic, and the film is as visually spinning as it is thought-provoking.

Linda Jolyin

CHINA 19

Misconceptions about religion and the religious remain



A protest after the killing of eight Tibetans during riots in Lhasa in September

Omens from Tibet

AT THE height of the recent tension in Tibet, hundreds of pilgrims to Lhasa faithfully continued their circuits, clockwise as their religion demands, of the sacred Jokhang Temple in the centre of the city. At the same time, a police jeep did a circuit of the Jokhang, an anti-clockwise circuit.

In Talyuan, the capital of Shaanxi, the head of the local religious affairs bureau, determined to convince me that Catholics are not Christians. The bureau has separate categories for the two, so they cannot possibly be the same.

And in Kashgar, on the silk road in the far west, where Han Chinese are outnumbered by Turkic-speaking Uighurs, Kasim Aysa, the religious affairs director, explains that he is both a Communist and a Moslem. He gets round the apparent contradiction because "I don't believe in Allah."

The Communist Party is proud of its recent religious record. It can justly claim that, compared with the repression of religion during the Cultural Revolution (1966-76), China's faithful have never had it so good. But miscon-

ceptions about religion and the religious remain, and were highlighted by the pro-independence protests in Tibet.

Tibet and Xinjiang are the two most volatile religious regions. Both are in the strategic far west, and would play a major role in any conflict between China and the Soviet Union or China and India. In both regions, religious tension is complicated by racial tension, and both religions, Tibetan Buddhism and the Islam of the Uighurs, have enough mystery and ritual to make the average Chinese bureaucratic, raised on a strict diet of dialectical materialism, decidedly uncomfortable.

Chinese officials seem to have been confused by the importance that omens — earthquakes and rainbows and the revelations of an oracle — played during the Tibetan protests, which apparently ended several weeks ago. But foreign journalists are still banned from Tibet, and there have been reports of further unrest.

During the protests, I visited the Drepung monastery near Lhasa, and chatted to a young monk who was intent on

improving his English. In passing, I mentioned that there had been a rainbow over the city the previous evening. The monk wanted details about where the rainbow began and ended, and enthused: "The Dalai Lama's soul has truly returned."

The Government regards such talk as pure superstition, and has sent re-education teams into the monasteries to put the Dalai Lama, the exiled Tibetan spiritual leader, into a Communist perspective. The Government is also outraged that the monks should take for granted the more tolerant Chinese approach and the many millions of dollars Peking has poured into the remote region.

That is another basic misunderstanding. The monks have not forgotten the Dalai, though he has been in exile for 25 years, nor the brutality following the failed 1959 uprising, when the Dalai fled to India, nor the violence of the Cultural Revolution, when almost every temple in the region was damaged or destroyed.

The monks are not interested in the statistics proudly displayed by Peking. Grain produc-

tion is 2.2 times that of 1950, and increased tourism — "the key sector of Tibet's economy," as the Government puts it — led to a 13.3 per cent rise in the profits recorded by the handicrafts industry last year.

At the heart of Chinese frustration in Tibet and in Xinjiang is the official belief that, in time, both groups will eventually see reason and be converted to Communism. However, the Government has begun to realise that religious sentiment will not easily be overwhelmed by grain statistics and by readings of the standard Communist texts.

Sun Jun, of the Xinjiang Religious Affairs Bureau, explains: "I don't believe in religion. I believe that what Marx said is right. According to party policy, we must honour and also protect religion. But with the passing of more history, these things will become weaker and weaker. It will last for a limited period. It is difficult to say how long." In Kashgar, Kasim Aysa rolls out statistics to prove that in Xinjiang too, the party has been more than benevolent: there are 7,946 places of worship in and around Kashgar, none of which functioned during the Cultural Revolution. At that time, Peking was keen on romanticising the Turkic script and separating new generations from their past. That plan has been dropped, though fading shop hoardings still bear the scars.

Kasim Aysa also emphasises that while he is a godless Moslem, other people can believe in whatever they like, whenever they like. "You can, today, believe in this religion and tomorrow you can believe in another religion and then on the next day you can have another religion."

Racial and religious tensions have obviously eased from earlier this decade, when Uighurs and Hans clashed in several cities, and, reportedly, similar conflict between Tibetans and Hans was not uncommon. Ordinary Tibetans and Uighurs have felt the material benefits of China's reform programme, and many Tibetans concede that life was tough under the previous rule of the Lamas, though the Dalai was a particularly popular leader.

If China's economic reforms were to falter or if the Government were to become impatient with the slow but inevitable "weakening" of religion and tighten religious controls, tension would rise quickly and past grudges would have new relevance. For the moment, there are few signs that Peking intends to make either serious mistakes.

Robert Thomson



Qin Emperor's tomb at Xian in Shaanxi province

Key facts

Official title: People's Republic of China
Head of State: President Li Xianglin
Head of Government: Acting Premier Li Peng (due to be confirmed in 1988)
Communist Party General Secretary: Zhao Ziyang
Capital: Peking
Currency: Yuan
Exchange rate: Yuan 3.722 = US\$1 (4.12/87)
Area: 9,596,961 sq km
Population: 1,087m
Gross value of industrial and agricultural output (1986): Yuan 1,510.4bn
National Income (1986): Yuan 779bn
Trade (1986): Exports US\$30.9bn; Imports US\$42.9bn
Foreign tourists (1986): 22.62m (includes overseas Chinese)

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Tel: 01-215 5357/5252

Commercial Section
British Embassy
11 Guanghua Lu
Jiangmenwai
Peking, China
Tel: 521961/2/3

British Consulate General
284 Yongfalu
Shanghai, China
Tel: 374568

Business guide

Hotel discounts and headaches

THE LOT of the foreign business person in China has not been a happy one. Long a captive of a seller's market in office and apartment rentals, and long-frustrated by appalling communications and shocking service, the resident representative had every right to push for a generous hardship allowance.

While bonus-backed business people are reluctant to admit it, China has begun to turn. Suddenly there is a surplus of office space and once arrogant hotels are doing what would have been unimaginable a year or two ago: they are offering discounts on long-term rooms.

In a few months, the national carrier, CAAC, famed for its incompetence, will introduce computer bookings for domestic services, and International Direct Dialling is spreading quickly.

Still, opening a representative office remains an expensive proposition. Start-up costs for one staff member with a local assistant are generally estimated at \$350,000, and revenue from such an office will be hard-won.

China is still suffering a shortage of foreign exchange and restricts the role of representative offices. Lawyers cannot officially engage in legal work and bankers can do little more than back hotel and office complexes.

Peking now has a glut of office buildings and more are on the way, making it likely that there will be double the needed space by late 1990. While the Government has attempted to ban new office buildings, foundations are now being laid for at least three more and several other contracts have been signed.

Signs that the market has swung around include discounts by the popular Jiangsu Hotel, a Hong Kong joint venture, which has lost tenants to the recently opened, long overdue and problem-plagued Noble Tower complex in the heart of the city.

The Jiangsu is offering a 20 per cent discount on the standard \$100 a day, while the Sheraton Great Wall Hotel provides a 30 per cent discount for long-term tenants, and throws in a 20 per cent cut on laundry expenses and banquet room rental.

The Lido Holiday Inn office complex has several hundred vacant rooms at \$50 a day for 60 sq m, plus \$1.50 a sq m in management fees each month.

Despite promises by the Chinese Government to liberalise procedures for the hiring of local staff, most foreign companies are forced to use the Foreign Enterprises Service Corporation (Fesco). Interpreters range from \$325 to \$1,000 a month, with another \$55 a month in food allowances. A secretary will cost between \$220 and \$325 a month, and a driver around \$220.

The average Peking wage is about \$250 per year, so Fesco does well out of the deal. Foreign companies negotiating joint ventures generally find that staff costs and training levels are two much-argued issues, with the Chinese partner often out to make a killing. For example, during negotiations for an accidental Coal joint venture, Chinese officials insisted that local miners be paid at US levels.

Making forward bookings on CAAC for business trips to the provinces is still a problem. A businessman flying from Peking to Shanghai and then on to Chengdu, in the south-west, must generally book the Shanghai to Chengdu leg in Shanghai.

However, foreign travel agents with good connections can now book the onward tickets, and CAAC promises that domestic bookings will be computerised some time next year, which, perhaps, will put an end to the tragic tales of travellers stranded in bleak, out-of-the-way places for a week.

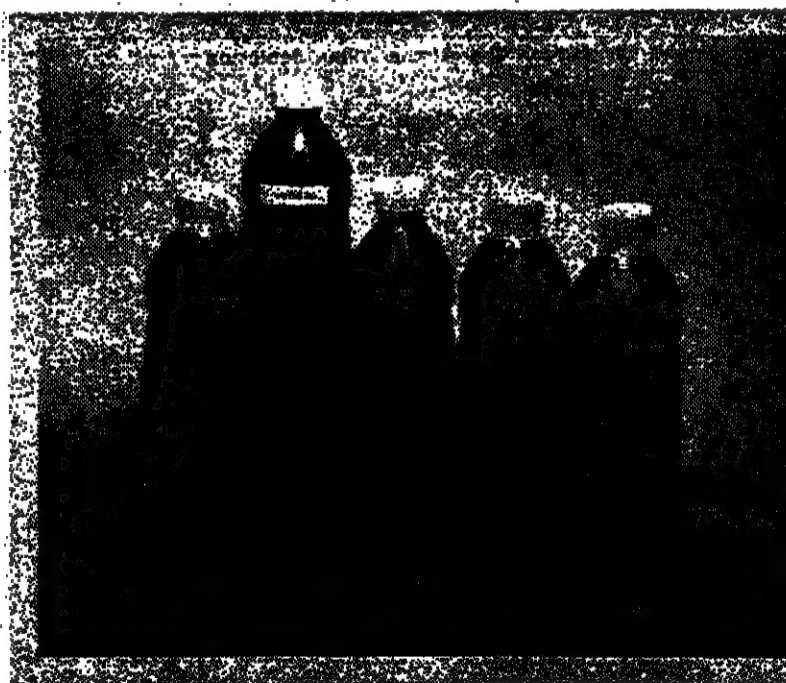
Foreign business people who have done the Great Wall and are looking for a different kind of China experience in Peking should hire a car and visit the Qing, not the Ming, tombs. If you must visit the Ming tombs, insist that you be taken beyond the crush of the renovated area to the quiet surrounds of a tomb in its natural state of decay.

When in Shanghai, a cheap and readily available book, *In Search of Old Shanghai*, is a must. It gives the low-down on the history of the city's foreign buildings and conveys a sense of the old 'Paris of the East'. For communications reasons, it is probably a good idea to stay at the Huating Sheraton, but if immediate phone connections and coherent messages are not essential, the Peace Hotel or Shanghai Mansions are recommended.

Robert Thomson

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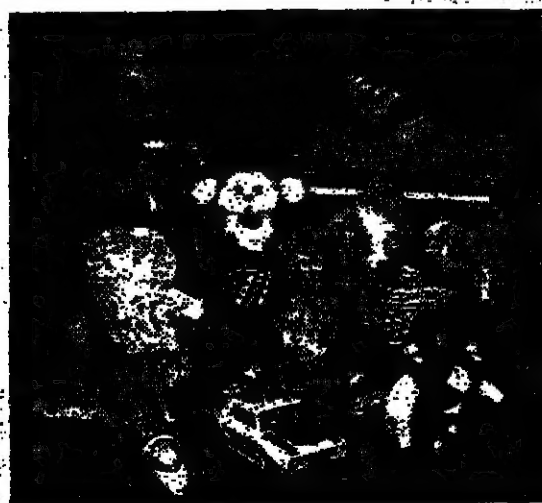


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CHINA 20

Colina MacDougall looks at the new Politbureau and picks out the men to watch



From left to right: Zhao Ziyang, Li Peng, Qiao Guh, Hu Qili, Yao Yilin

Who's who in the new Politbureau line-up

AFTER A year of political upheavals which included student demonstrations, a leadership crisis and riots in Tibet, China's 13th Party Congress last month appointed a new ruling body to succeed supreme leader Deng Xiaoping and other party elders who formally retired.

The new Politbureau contains several much younger men whose potential can only be guessed at. Because these members are new to the top line-up, their views on the crucial issues of the reform are mostly not known.

The new leadership is widely seen as transitional, filling the gap left by the collapse of Deng's plan to leave power to the now-dismissed party general secretary Hu Yaobang and former premier Zhao Ziyang.

Any one of three or four men in the new Politbureau could end up as China's top leader, depending at least partially on whose patrons among the powerful elderly last longest. General Secretary Zhao's survival, past that of the 82-year-old Deng, is not a foregone conclusion. A look at the new line-up sheds

some light on the possibilities.

Though the new Politbureau contains many unfamiliar names, two of the members have close family ties with the old leadership and two more, into their 70s, are themselves part of the revolutionary generation. Eight went to university (two in the Soviet bloc), of whom all studied some aspect of engineering.

Three, perhaps four, made careers in the power industry. Four spent time working in Deng's home province of Sichuan, with him or with each other. Two rose almost exclusively through key party posts, close to the sources of power, while another two are powerful but elderly generals.

These groupings overlap confusingly. But given the importance in China of family connections, the old school tie and career links, they provide some clue to the future. This is all the more vital as the old generation passes.

Five key members make up the Politbureau Standing Committee, which controls the Polit-

bureau. Their average age is 67, and four of them are new. The published listing showed them in order of precedence, a hopeful sign of agreement on seniority which did not extend to the Politbureau as a whole. They are:

Zhao Ziyang, 68, party general secretary and former premier. A spokesman for and practitioner of reform, he is clearly a protégé of Deng's. His later career was spent in Sichuan province. But taking the top party post has cut him off from support in the Government hierarchy.

Li Peng, 58, now No 2 in the party and acting premier, expected to be confirmed at the next National People's Congress. The son of a Communist killed in the Revolution, he was adopted by Zhou Enlai and studied electrical engineering in Moscow. Unlike most, he kept his job during the Cultural Revolution. He is widely believed to favour central planning. A man to watch.

Qiao Guh, 63, a vice-premier, is a dark horse. Newly in charge of the party's Discipline Commission and experienced in legal

and judicial work, he is widely seen as China's Top Cop. After a lifetime in party work (he joined at school) he is a possible future general secretary. Silent so far on reform policies, he is another man to watch.

Hu Qili, 58, is in charge of propaganda. Associated with Hu Yaobang through years of shared Communist Youth League work, he favours reform but as a pure politician is unlikely to have the necessary all-round support to get the very top job.

Yao Yilin, 70, studied at Peking's Qinghua University in the 1930s, joining the party in 1936. He has wide experience of economic posts, is thought to be a conservative in matters of reform and is well-known to party elders. He was appointed to run the State Planning Commission earlier this year.

The remaining 12 (13 including one alternate) Politbureau members were listed in the Chinese equivalent of alphabetical order. They are:

Wan Li, 71, a vice-premier. A former Politbureau member, he has long experience of economic

work. A reformer, he started the first round of Deng's agricultural changes in 1978. He failed to win the premiership this year, though acting in the post during Zhao's absences from China.

Tian Jiyuan, 56, a vice-premier and Politbureau member since 1985 whose star appears slightly on the wane since he, too, lost the race for the premiership after being tipped as a runner. A committed reformer, he worked with Zhao Ziyang from 1969 to 1981 in Sichuan.

Jiang Zemin, 60, a new Politbureau member. Mayor of Shanghai and formerly Minister for the Electronics Industry, he studied at Shanghai's Jiaotong University. Mainly involved with science and technology, since 1980 his work has focused on imports and foreign investment. He is probably a reformer.

Li Heying, 51, a new Politbureau member. Another dark horse, and the third man to watch. He is thought to be the son of Deng Xiaoping's second wife, who took off with the now-dead party leader Li Weihan. This, and his long associa-

tion with Li Peng, may have helped in his promotion. Like Li Peng, he has been known to the party elders since infancy. He studied electronics in Prague in the 1950s and worked in the electronics industry, becoming Minister of Electronics in 1985. Since March, he has been chief of the key Commission for Restructuring the Economy.

Li Ruihan, 53, a new Politbureau member. Mayor of Tianjin and a former construction worker. Earlier this year he was also rumoured to be in the running for Premier because of his energy and good party connections (he helped in the building of both the Great Hall of the People and Mao's mausoleum in Peking). His party promotion suggests his career is still on the rise.

Li Ximing, 61, a new Politbureau member. Party secretary of Peking, he was educated at Qinghua University. He worked mainly in the power industry till 1982 when he became Minister of Construction. His path is likely to have crossed Li Peng's often during his career. His views on

reform are not known.

Yang Shangkun, 77, former Politbureau member and China's most senior soldier, holding the key post of permanent secretary general of the party's military commission. An old associate of Deng's, but not likely to be more than a cautious reformer.

Yang Ruobai, 53, new to the Politbureau, party secretary of Sichuan and successor in that post to Zhao Ziyang. An agricultural specialist with a middle school education, local officials nicknamed him the "straw-sandal secretary". Likely to be an economic but not a political reformer.

Wu Xueqian, 66, former Politbureau member and Foreign Minister, a third dark horse and yet another man to watch. He has risen entirely through party ranks, working in the 1950s and 1960s in the Communist Youth League when headed by Hu Yaobang. Current hints in Peking suggest he is destined for higher things. His views on reform are not clear.

Song Ping, 70, new to the Politbureau. Educated at Qinghua

University where he joined the party, he later spent time at Yenan, Mao's legendary stronghold. With planning and administrative experience, he is now involved in party organisation work. A cautious reformer.

Hu Yaobang, 72, former Politbureau member and party general secretary who fell from power in January after the student demonstrations. He retained his seat on the Politbureau, but not on the Standing Committee. His support from Deng and others must still be strong.

Gu Jiwel, 73, promoted to Politbureau membership from his previous rank as alternate member. Commander of the Peking Military Region, he has made his units a model of military modernisation. Though a Deng protégé, he is unlikely to support much political reform.

Ding Guangren, 59, newly promoted to alternate member. Studied transport at Jiaotong University in Shanghai during the 1950s, he is now Minister of Railways. Said to be one of Deng's bridge partners. His views on reform are not known.

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